Aid to Workers in Declining Industries

AID TO WORKERS
IN DECLINING INDUSTRIES

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1
Introduction

The pattern of industrial activity is ever-changing. New technologies replace old, so some firms become obsolete. Relative strengths in international competition shift, so the national industrial structure requires adjustment. Thus, an economy, regardless of whether it is growing at a healthy rate, often includes industries that are declining.

Many workers face not only permanent layoff from firms in these industries but also subsequent hardships because their job skills are no longer in demand. Even if unemployment in the economy is low overall, laid-off workers whose skills are specific to a declining industry will have difficulty quickly finding lasting re-employment. Their problems will, of course, be worse if overall unemployment is high.

Yet even in times of high unemployment, some industries may be growing – and suffering for lack of workers with appropriate skills. Recent evidence makes it clear that widespread labour shortages can co-exist with high rates of unemployment. (For example, Betcherman [1982] surveyed 4,012 establishments; approximately half of the 1,354 respondents reported hiring difficulties during 1977 to 1979, and 43 per cent anticipated shortages during the next five years.)

Governments' adjustment assistance to laid-off workers can, therefore, serve at least two goals, if it is carefully designed. It can compensate workers who unexpectedly experience hardship as a result of the economy's adaptation to changes in technology and/or the international economic environment. It can also direct displaced workers into growth areas or occupations so as to alleviate bottlenecks, thus simultaneously reducing structural unemployment and inflation.[1]

A third goal is rooted in practical politics. As Glenday, Jenkins, and Evans (1982, 67) point out, when industries decline as a result of structural change, the hardship generated by permanent layoffs is particularly concentrated. In these circumstances, effective political lobbies arise to

promote policies that would protect these industries from competitive forces. Well-designed assistance programs for the workers involved can remove or at least reduce resistance to socially desirable adjustments.

The aim of this study, then, is to review the rationales for government intervention when many permanent layoffs occur in a particular industrial sector (or would occur if protective policies were not in place); to describe and evaluate existing government programs for helping workers adjust to such layoffs; and to recommend policy changes to meet the goals of adjustment assistance more efficiently.

Chapter 2 first reviews the types and magnitude of losses suffered by workers who are permanently laid off from declining industries. It then examines and evaluates arguments in favour of government aid to these workers. Some of these rationales are based on considerations of equity, others on considerations of efficiency. Among the latter are externalities associated with the creation of unemployment as well as externalities present in the market for retraining. I also examine in detail the argument that the political reality of achieving efficient outcomes requires compensating those who suffer as a consequence of economic change. The chapter concludes with a look at the issue of 'moral hazard'.

Chapter 3 examines the current adjustment-assistance programs of the federal and Ontario governments. New cost-benefit analyses of these programs are beyond the scope of this study, but I use a review of evaluations undertaken by others to assess program effectiveness and make recommendations for change. Among the federal government programs examined are Employment and Immigration Canada's provision of counselling and information through the Canada Employment Centres and its efforts to forecast labour-market imbalances. Next comes a look at the Labour Adjustment Benefit program currently in place in the textiles, clothing, and footwear industries and an assessment of the appropriateness of expanding this program to other sectors.

Chapter 3 continues with an examination of the mobility and retraining assistance programs in place before the recent passage of the National Training Act. It then describes the changes the new act brought about, presents a preliminary evaluation of their likely impacts, and discusses the gaps remaining. The chapter also contains a brief review of the federal Industry and Labour Adjustment Program and concludes with a description and assessment of special adjustment initiatives undertaken by the government of Ontario.

Chapter 4 provides a summary of findings and recommendations

2
Rationales for assistance

Workers laid off from a declining industry suffer several kinds of losses. The most obvious is lost earnings during the resulting period of unemployment (minus unemployment-insurance and/or welfare benefits).

Clearly, the size of this loss depends in part on the duration of unemployment. In the past, many economists have argued that the typical spell of unemployment is very brief. New research challenges this view, however, and the high levels of overall unemployment in recent years have made it increasingly unlikely that displaced workers will find new jobs quickly, especially if their skills are specific to their former employment. The Economic Council of Canada (1982, 50-1) reports research showing that out-of-work spells exceeding three months accounted for 45 per cent of total unemployment in 1980 (55 per cent among males of the prime ages, 25 to 44) and spells longer than six months for 32 per cent of unemployment among prime-aged males. In their study of unemployment in the United States, Clark and Summers (1979) find that many of the unemployed are out of work for long periods. For example, only 36 per cent of unemployment in 1974 was attributable to individuals who found work within three months of losing a job.

The problem of long-term unemployment is naturally more serious for workers whose skills are no longer in demand. Glenday and Jenkins (1981) report evidence from the Labour Force Tracking Survey on the re-employment experience of 4,250 workers permanently laid off from the clothing, textile, knitting, and electrical-products industries. The mean duration of the first unemployment spell after layoff (including time spent out of the labour force by workers too discouraged to look for work) was 12.5 months.[1] Subsequent unemployment spells had a mean duration of 16.1 months. Not surprisingly, Glenday and Jenkins find that the loss of income for the workers surveyed was sensitive to the wages obtained upon re-employment. In the five years subsequent to layoff, those who experi-

enced no change in real wages suffered income losses of $1,000 to $4,000 (in 1978 dollars). Those who obtained new jobs at increased wages suffered losses of less than $2,000, while those who found employment only at lower wages lost as much as $10,000. Note that the layoffs Glenday and Jenkins examined occurred between 1974 and 1976; given the higher overall unemployment rates of recent years, income losses for similar workers are undoubtedly much greater today.

Yet forgone income is only part of the loss laid-off workers experience. The figures do not include any estimate of forgone employer contributions to pension plans for non-vested workers who lose their jobs.[2] Neither do they take account of the psychological depression associated with job loss or the extra burden it puts on family members.

If the laid-off worker must move to another community to find new employment, other losses may occur. Job-searching in a distant community is costly; so is moving, especially with a family. And relocation may involve another loss – one most likely for workers laid off from a declining industry that has dominated their community – a capital loss on the value of owned housing.[3] This loss is experienced only if the housing unit is actually sold, but the potential creates a strong disincentive for the worker to move to another community, even if the job opportunities there might be better.

All these costs (possibly excepting those associated with the lack of portability of pensions) are most severe for persons displaced from jobs in thin labour markets. That is, the likelihood of long unemployment and of declines in wages upon re-employment are greater when layoffs occur in small communities with few local sources of employment. Having to incur relocation costs is also more probable in such circumstances. In addition, the thin housing markets associated with such communities imply larger capital losses on housing units than would be experienced within or close to a large centre.

Clearly, workers laid off from declining industries may suffer substantial hardship, especially (but not only) when they are located in small, single-sector communities. Should the government assist these workers? If so, what sorts of intervention should it use? The remainder of this chapter is concerned with the answers to these questions.

EQUITY-BASED ARGUMENTS FOR ASSISTANCE

An important consideration in setting policy for laid-off workers is equity. Is it fair that individuals should bear the heavy burden of job loss without alleviating measures? How can anyone (including a policymaker) determine what is equitable without self-interest creeping in?

In considering questions such as these, the metaphor developed by Rawls (1971) is helpful. Imagine that the rules for distributing society's fruits are to be determined in some pre-creation way station, where no one yet knows what his or her existence will be like. The people in the station know that some of their number will experience layoffs from declining industries, but they do not know who these individuals will be; everyone in the way station has an equal chance of suffering this experience. What rules would the people in the way station devise for the treatment of laid-off individuals? Surely, almost all of them would regard it as just for those individuals who will suffer *unexpected* layoffs to receive some compensation for their hardship.

The distinction between expected and unexpected layoffs is important here. Workers who enter jobs knowing that layoff is likely would have been able to avoid eventual hardship by initially choosing different careers. Presumably, our way-station society would be less willing to compensate such individuals.[4] For many workers, however, permanent layoff will be more or less unanticipated, so compensation seems fair.

The way station is an exercise in theory, but in practice recommendations for layoff assistance *are* often based on considerations of equity rather than efficiency. For example, the rationales offered for legislating mandatory severance pay include the argument that workers have a property right in their jobs and so must be compensated if they cannot exercise this right. The concern for fairness is also often used to justify subsidies for geographic mobility and retraining (occupational mobility). The individuals likely to suffer the most from dismissals, runs the argument, are those lacking in skills, those whose skills have become obsolete, and those with strong attachments to a small community – in other words, those who have the least mobility in the labour market. Thus, subsidizing mobility is equitable because doing so directs aid to the individuals who are hardest hit by layoffs.

EFFICIENCY-BASED ARGUMENTS FOR ASSISTANCE

Many economists are uncomfortable with equity-based arguments. Luckily for laid-off workers, several common rationales for adjustment assistance are based on efficiency. They concern externalities – some that arise from unemployment itself and some that exist in the market for retraining.

Externalities associated with the creation and persistence of unemployment

Unemployment creates costs for society. An unemployed individual has the potential to produce output. As he or she sits idle, resources are

being wasted; the forgone output is a social cost. Furthermore, as Brenner (1976) shows, unemployment contributes significantly to the use of health-care services and to the level of criminal activity, both of which involve social costs. To complete the list of the social costs of unemployment, one must add the disutility associated with the feelings of frustration and alienation that accompany job loss (but one must subtract the value of increased leisure time).

The fact that the unemployment associated with industrial adjustment generates social costs does not in itself provide an efficiency rationale for government intervention. One might argue that the affected workers bear all the costs just listed, that they (or their union, bargaining on their behalf) can allow for these costs in decision-making, and so that no externality exists. But the workers do not bear all these costs for a number of reasons. One is the existence of income taxes. In a system of competitive labour and product markets, a worker is paid the value of his or her marginal product (that is, the addition to output attributable to the worker's efforts). The tax on that worker's income, however, means he or she nets less than the value of the marginal product. Thus, when an individual is laid off, his or her loss in net income is necessarily less than the value of the forgone output. In other words, the private cost does not equal the social cost.

Another source of externality is the existence of other unemployment. If workers who are laid off find new employment, the jobs they obtain might otherwise have been taken by others among the ranks of the unemployed. Thus, social costs persist among the latter.[5]

A further source of externality is the various forms of income support to which laid-off workers have access. Clearly, given the existence of subsidized health care, unemployment insurance, and general welfare programs, the individual laid-off worker does not bear all the social costs of unemployment. Thus, he or she may rationally remain unemployed and refrain from investing in retraining even when such an investment would yield a net social benefit. In other words, once society, for reasons of equity, eases the burden of being unemployed, the existence of these programs itself creates an efficiency rationale for government intervention to promote re-employment. Since we can take it for granted that some form of unemployment insurance and welfare assistance will (and should) remain in place, this externality will continue to exist.[6]

Gunderson (1974) points out another efficiency-based rationale for adjustment assistance to laid-off workers. In the absence of such intervention, large-scale layoffs generate social unrest. (Recall the finding of Brenner [1976] that increases in unemployment generate increases in the level of criminal activity.) Clearly, the reduction of such unrest, as may be achieved

by an adjustment-assistance program, is a public good that can be realized only through collective action.

In brief, many reasons exist for arguing that the creation and persistence of unemployment are associated with negative externalities.[7] That is, layoffs caused by industrial adjustment generate social costs that are not entirely borne by the decision-makers responsible.

Appropriate intervention

The appropriate policy response to a negative externality is to subsidize its removal and/or tax its creation (unless the costs of administering the intervention would outweigh the efficiency gains). One can view government-financed mobility assistance and retraining programs as subsidies to re-employment and hence as theoretically efficiency-enhancing. (Chapter 3 includes an examination of how well Canada's mobility and retraining programs have actually performed.)

Another way of reducing unemployment in declining industries is to provide direct wage subsidies to firms so as to forestall layoffs. This approach is unlikely, however, to be the optimal method of intervention since it requires a subsidy continuing into the indefinite future. A variation is to provide the workers involved with portable wage subsidies, usable by any new employer. Jenkins, Glenday, Evans, and Montmarquette (1978) have recommended this instrument as part of an adjustment-assistance program. The wage subsidy would continue for several years after the layoff, to encourage lasting employment, and its size would vary inversely with the trade protection the new employer receives. This approach, however, involves the danger that the subidized workers will find re-employment in other declining industries and/or that they will again be laid off when the subsidy expires.

An alternative to employment or re-employment subsidies is to tax the act of firing. One can think of mandatory, *employer-financed* severance pay and lengthy advance-notice requirements as examples of 'firing taxes'.[8] This approach, however, is not normally a desirable response to changes in the pattern of competitiveness of industrial activities since it discourages the movement of labour to more productive jobs.[9] Subsidizing geographic and occupational mobility, while more costly in the short run, offers a greater present value for the stream of current and future net social benefits.

Furthermore, a tax on firing is not exactly the same as a tax on the creation of unemployment since employers may respond to the former by reducing not only dismissals but also new hiring. When deciding whether to hire, an employer naturally takes into account any extra costs that must be faced in the event of layoffs. Thus, a 'firing tax' is likely to reduce the

overall rate of hiring and to have a particularly adverse effect on unskilled workers who are seeking employment. An employer inevitably has some uncertainty about whether such workers, even if given on-the-job training, will eventually develop into reliable employees. Accordingly, an employer will be particularly reluctant to hire them if dismissal, perhaps several years later, would be costly. (The magnitude of this problem is, of course, reduced if the 'firing tax' applies only to workers with many continuous years of service to the same employer or is proportional to the length of employment.)

Stephen Nickell (1979) has undertaken empirical research in the United Kingdom on the effects on unemployment of firing taxes – specifically, mandatory severance pay (partially funded directly by the employer) and a lengthened minimum notice of dismissal. Controlling for the vacancy rate, Nickell found that the layoff rate did indeed fall with the 'taxes', but that this effect was more than offset by a decline in the probability of new hiring. The net effect was a significant increase in unemployment.

Conclusions

Both theoretical and empirical investigations, then, indicate that 'firing taxes' are likely to be a poor method of correcting the negative externalities associated with layoffs. Accordingly, these instruments are not given further attention in this study. But an efficiency rationale exists for measures that subsidize re-employment, measures such as mobility and retraining assistance.

Externalities associated with the market for training

The case for retraining assistance is bolstered by the existence of additional externalities in the market for training itself. We have seen that unemployed individuals may refrain from investing in socially desirable retraining programs because they do not bear all the social costs of continued unemployment. There are additional reasons for expecting the private sector to achieve a suboptimal amount of training in the absence of government intervention. In particular, neither the firms that provide training nor the individuals who receive it may be able to obtain all the social benefits that it yields.

In order to examine the relevant incentives and disincentives for firms and individuals, we must distinguish between general and firm-specific training.[10] The former creates skills that are equally valuable to many firms; the latter, in the extreme, generates skills useful only to the firm providing the training. A competitive firm is unwilling to pay any of the cost of providing completely general training since, if it attempts to recover this cost

later by paying the trained worker less than the value of the marginal product, the worker will simply transfer his or her services to another firm.[11] Thus, firms will provide general on-the-job training only if the worker and/or the government pays for it completely. In other words, the worker has to accept during training a wage that is lower than the value of his or her marginal product by the amount of the firm's costs of training (or the government has to subsidize the difference).

On the other hand, a competitive employer is willing to pay all the costs of firm-specific training. Workers who have obtained such training cannot command a higher wage elsewhere since the skills it has provided them are not marketable to other firms.[12] Therefore, the employer is recompensed by being able to pay skilled workers a wage below the value of their marginal products. Indeed, as Dawson, Denton, and Spencer (1982) point out, the wage profile of skilled workers with completely specific training is identical to that of unskilled workers.

The analysis already leads to one policy conclusion: there is no reason for government to subsidize firm-specific training since firms will provide an efficient quantity without any external support.

We have also seen, however, that firms cannot be expected to pay the costs of general training or all the costs of training that simultaneously provides both general and firm-specific skills. Can individual workers be expected to cover these costs (probably by accepting wages during training that are below the value of their marginal products)? Presumably yes, since such training will increase the wages they can command later. However, as we saw in the previous section, displaced workers may be unwilling to pay all the costs of socially desirable general retraining, for if they remain unskilled (with consequent greater difficulty in finding and maintaining new employment), they do not bear all the resulting social costs.

Inability to pay for training

Individuals may not invest sufficiently in retraining for additional reasons. One relates to capital-market imperfections. In a world of no uncertainty, an individual entering a costly but productive training program (that is, one that will eventually generate higher earnings) would be able to maintain his or her current level of consumption by borrowing funds to be repaid out of the future earnings. In practice, however, the achievement of higher future earnings is uncertain, so banks are unwilling to lend the money without collateral. Yet the assets a worker owns may be largely his or her own earning power – that is, 'human capital' – which cannot be pledged as collateral. Thus, workers may be unable to finance their own training

even if they can rationally expect it to be profitable. As Gunderson (1974) points out, this situation is particularly likely for low-income workers, who usually have limited non-human assets.

Both Dawson, Denton, and Spencer (1982) and Gunderson (1974) note that these considerations suggest that providing of training loans to individuals would be a useful role for government. Whereas banks may be unwilling to make such loans without collateral or substantial risk-premiums embodied in the interest charged, governments are large enough to pool the risks effectively across individuals. In other words, the aggregate risk to society associated with a retraining loan program may be negligible. Indeed, government loan programs for college and university education already exist. What is called for is an extension of such programs to skill-training activities, both in institutions and on the job.

Loans, however, would not counter some other imperfections in the market for retraining. As we have seen, displaced workers may be unwilling to make a socially optimal investment in retraining even with access to loans.

Minimum-wage laws may also pose a problem. If the workers are to bear all the costs of on-the-job general training, they may have to be paid at a rate below the minimum wage (or even be 'paid' a negative wage) during the training period. Since the law does not permit such low wages, some socially desirable training will not occur unless the government intervenes by partially subsidizing the employer who provides it.[13] Thus, government provision of subsidies, as well as loans, appears to be called for.

Uncertainty or lack of knowledge about the future prospects of various occupations may be another reason individuals underinvest in retraining. Since labour-market information, including forecasts, is a public good, there is an efficiency-based argument for its provision by government.

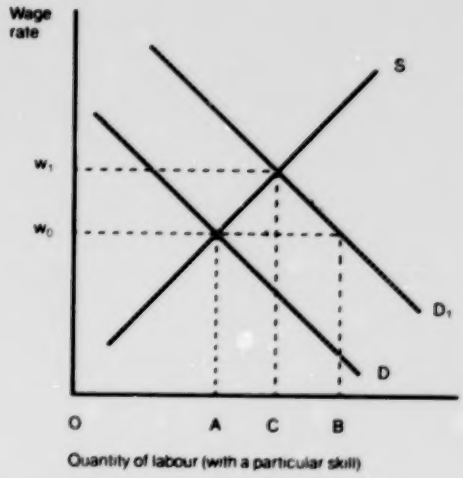
The need for information

The lack of labour-market information is associated with another kind of externality: bottlenecks arising from shortages of workers with particular skills. As long as information about future employment prospects is poor, insufficient numbers of workers will be trained to meet the demand for some skills, so shortages are likely to arise.[14]

Thus, two related ways to achieve social benefits are to improve the availability of information about the future prospects of alternative occupations and to direct unemployed individuals into training designed to provide them with skills that are expected to be in demand at the time of completion of the program.

This argument can be illuminated by probing a bit into the meaning of

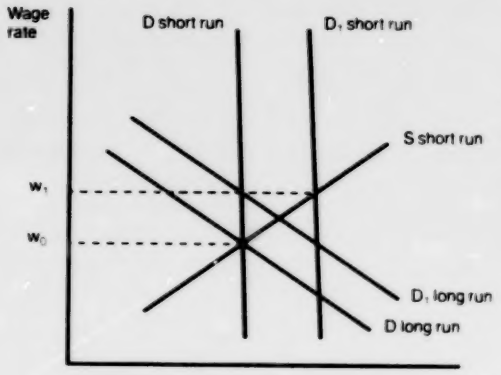
Figure 1
A rising wage rate, in response to an increase in demand



'labour shortage'. Dawson, Denton, and Spencer (1982) point out that it is difficult to provide a meaningful definition of the term within the context of neoclassical production theory. If the supply of labour with a particular skill is less than the demand at some wage rate, the theory tells us, wages for that type of labour will rise, thereby causing an increase in supply and/or a reduction in demand until equilibrium is restored. This movement is illustrated in Figure 1. Initial equilibrium occurs at a wage rate, w_0, where both demand and supply equal OA. Suppose demand for this type of labour increases as indicated by the shift in the demand curve to D_1 (perhaps as a result of an increase in the demand for the goods these workers produce). At the old wage rate, w_0, a shortage indeed exists, as demand now exceeds supply by AB. But neoclassical theory predicts that this shortage will be quickly eliminated: the wage rate will rise from w_0 to w_1, thereby inducing an increase of AC in the supply of labour and a reduction of CB in demand.

Dawson, Denton, and Spencer (1982) note, however, that the demand-side response may be dampened in the short run. Specifically, they argue that plant managers may perceive production processes to be of the Leontief fixed-coefficients type, which means that the factors of production cannot

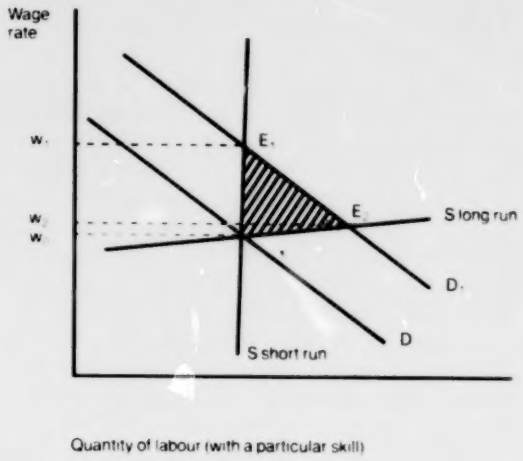
Figure 2
A rising wage rate with inelastic short-term demand



substitute for each other. In other words, runs the argument, managers may perceive that their plants *require* a certain amount of labour with a particular skill, so their demand for that labour will be relatively insensitive to wage-rate changes in the short run.[15] In the long run, however, they see methods of production as more adaptable, and consequently the demand for labour with a particular skill becomes more elastic. Thus, Dawson, Denton, and Spencer see labour shortages as a strictly short-run phenomenon. Their argument does not, however, show that shortages must arise, even in the short run. As long as the short-run supply is at least moderately elastic, wage-rate changes can still quickly eradicate any imbalance, as shown in Figure 2.

Of course, it is unrealistic to suppose that the short-run supply of most medium or highly skilled labour is responsive to wage-rate changes. On the contrary, obtaining such skills usually requires several years of training. Thus, in the short run, the supply of workers with a given skill may be almost completely inelastic. Yet even this situation does not guarantee a labour shortage in the strict sense of the term – some wage rate usually exists that will equate demand with the relatively inelastic supply. That equilibrium wage may, however, be quite high.[16] More important, since the long-run supply of skilled labour may be quite responsive to changes in wage rates, society can gain if the initial increase in demand for labour is

Figure 3
The social gain available from anticipating changes in demand

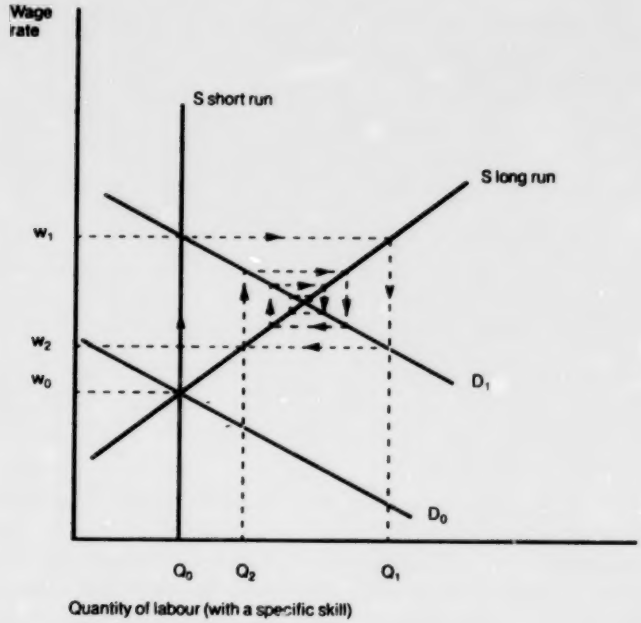


anticipated long enough ahead to allow workers to complete a suitable training program.

This phenomenon is illustrated in Figure 3. When demand increases from D to D_1, an increase in the wage rate to w_1 can restore equilibrium quickly at E_1. Some time later, the labour supply will adjust by shifting to the long-range S curve, and wages will fall to w_2 with the new equilibrium point at E_2. If the increase in demand is anticipated, however, the economy can move to E_2 quickly instead of after several years. Since the height of the D_1 curve gives the value of output generated per unit of additional labour and the height of the long-run S curve shows the long-run opportunity cost per unit of additional skilled labour, the shaded area represents the net gain society can achieve by anticipating the demand increment.[17]

This analysis highlights the importance of government efforts to forecast future labour-market developments and to disseminate this information to firms, individuals, and schools. The work of Freeman (1976) and others offers disturbing evidence that people who are considering entering training programs for the higher skills and professions base their decisions on the wage rates prevailing at the time of entry rather than on informed expectations of the wage rates at the time of program completion. This behaviour generates what is called the cobweb phenomenon, depicted in Figure 4.

Figure 4
The cobweb effect



The figure illustrates a market for labour with a particular skill that is not readily convertible to or from some other type of work in the short run. (Thus, the cobweb phenomenon is implicitly related to specific training.) Moreover, training for this skill takes some time. In the diagram's initial equilibrium, a quantity of this labour, Q_0, is hired at wage rate w_0. Then, for unanticipated reasons, the demand curve shifts from D_0 to D_1. The wage rate is quickly bid up to w_1 because, according to our assumptions, the short-run supply curve is inelastic. Look, however, at the long-run supply curve, which reflects elasticity after people have had the opportunity to complete training programs. Individuals enter training on the basis of observing the wage w_1. The result, several years later, is an increase in supply, from Q_0 to Q_1. At w_1 there is now a surplus of labour instead of a shortage. As the D_1 curve tells us, Q_1 of this labour can be employed only at a lower wage, so the rate falls to w_2. Thus, some recently trained workers'

expectations are frustrated. Over time, some change occupations and the rate of new trainees falls, so only Q_2 are left seeking employment. This decrease drives the wage rate back up somewhat. The process continues until the market reaches the intersection of the long-run S curve and the D_1 curve – unless another unanticipated demand change has occurred during the interim.[18] Clearly, it may take a long time to reach equilibrium. But if the economy could anticipate changes in demand for that type of labour as well as their long-run implications for wage rates, the new equilibrium could be reached very quickly, yielding substantial social gains relative to the situation depicted in Figure 4. To put it another way, the problem of labour 'shortages' is really the problem of obtaining a more rapid movement to long-run equilibrium.

Whatever the terminology used, Figures 3 and 4 make it clear that an important objective of public policy must be to obtain accurate labour-market information, to forecast medium-term labour-market developments, and to disseminate this information widely.[19] Only thus can workers displaced from declining industries (as well as others considering occupational change and people making initial occupational choices) be guided into training for skills that are expected to be in demand, rather than into training for highly specific skills that turn out to be in surplus upon program completion. That desideratum may sound too obvious to belabour, but in Chapter 3's assessment of current labour-market information in Canada, we shall see that data deficiencies have made it very difficult to obtain accurate forecasts of the demand for specific occupational skills.

Conclusions

To recapitulate briefly, various externalities associated with the market for training call for several types of government intervention: training loans to individuals, training subsidies to employers and/or individuals, and the collection and dissemination of labour-market information, including forecasts.

Externalities affecting geographic mobility

Retraining a laid-off worker will accomplish nothing if he or she cannot find work in the new occupation. Yet the demand for many skills – even those in shortage – may be geographically distant from the place of layoff. Nevertheless, a worker laid off from a declining industry may have numerous reasons for being reluctant to move to a location where job prospects are better. The most obvious, of course, are the direct costs of the move itself,[20] as well as the psychological stress associated with pulling up roots. There is also the consideration that an employed spouse might not be able

to find a job – or a job as good as the current one – in the new location.

In addition, as Green (1983, chapter 4) points out, an increasingly important barrier to mobility is the desire to preserve the flow of housing services to the household. He shows that housing units now account for approximately 60 per cent of household assets in Canada and that home ownership is quite common, even among low-income families. As we have seen, when mass layoffs occur within a community, especially one distant from a large urban centre, the market value of housing may fall substantially. A worker who moves then faces a sizeable capital loss on the sale of the house, plus the knowledge that housing costs in the new location are likely to be much higher than the proceeds of such a sale.

As long as expected household income in the current location exceeds expected income minus the increase in housing costs in the new location (and minus moving expenses, including psychological costs), the worker has no incentive to move. Since expected household income in the old location may include such transfer receipts as unemployment insurance and/or general welfare benefits, an individual may rationally choose not to move even though the move would be a good investment from society's viewpoint.[21]

Thus, an efficiency rationale, as well as an equity one, exists for geographic mobility assistance.

LOBBYING REALITIES AND THE ACHIEVEMENT OF EFFICIENCY

Another argument for assisting workers displaced from declining industries starts with pragmatism. In the absence of generous adjustment-assistance programs, workers in declining industries, fearing the possibility of layoff, will lobby forcefully – and often successfully – for their employers to be protected from competitive forces. Thus, one can view compensation programs as a useful means of reducing resistance to efficient economic re-structuring. As Matthews (1971) notes, this view may be intertwined with the equity-based rationale for adjustment assistance:

> There is, in addition, a socio-economic argument to the effect that, since free trade will benefit the whole community but the impact of new competition from abroad will be felt only by some firms and workers (or, at least, will be felt unequally as between different firms and groups of workers), it is right that the difficulties of the few should be mitigated at the expense of all. The significance of this point of view as a moral issue will not be discussed here. However, it will perhaps not be considered unduly expedient to note that the principle of equity in economic matters is widely accepted today, so that a policy based on these tenets

is more likely to succeed politically than is one that does not take such factors into account. If this is so, then adjustment schemes could be said to contribute to the achievement of the economically advantageous free-trade policy. (p. 12)

Green (1983) goes beyond the notion of the political concern with equity to stress political decision-makers' self-interested sensitivity to the lobbying of those who hold jobs in industries threatened by economic change. Furthermore, he sees such lobbying as inevitable:

In a democratic society, free association is permitted. There is no constitutional restraint preventing losers (or winners) from banding together and lobbying in their own interests. Nor is there currently a constitutional limit on the government's power to finance its response. In the absence of a firmly based and widely supported (because it is perceived as fair) system of loss compensation (which would incidentally magnify the state's fiscal role), the results of successful lobbying efforts will almost always include some form of protection from market forces. (p. 46)

Even if the workers lack a unified voice,[22] large-scale layoffs, especially in single-sector communities, present political dangers (for example, the loss of a block of votes in a riding), and governments are likely to be sensitive to them.

This theory of the 'political economy' of economic adjustment can be stated more generally.[23] Although a change in the pattern of economic activity may promote efficiency (in the sense of generating a greater national product from society's resources), it may do so by generating large losses for some narrowly defined group within that society while generating small gains for everyone else. In these circumstances, we can expect to see lobbying efforts that successfully block or, at least, greatly delay economic restructuring. Given this political reality, efficient changes can be achieved only if those who would suffer significantly – for example, those who would lose their jobs – are compensated for their losses. The political necessity increases when the efficient change includes the removal of existing government protection. In that situation, government – and hence the politicians – are seen as directly responsible for the hardship experienced by those who bear the burden of the adjustment.[24]

Occasionally, the optimal policy is to protect an apparently inefficient industry by means of an output subsidy. Rees and Forster (1981) show that if wages are rigid and labour is not highly mobile between high and low unemployment areas, allowing an inefficient industry to expire may generate more social costs than benefits. However, one must remember

that mobility itself is in part a policy-determined variable and so presumably can be increased. Furthermore, a number of researchers have made empirical cost-benefit studies of protecting an industry populated largely but not necessarily exclusively by uncompetitive firms. In some cases, the costs greatly outweigh the benefits. For example, Glenday, Jenkins, and Evans (1982) studied the experience of workers laid off from firms in the textile industry in the Sherbrooke region of Quebec. On average, they found new jobs relatively quickly. Taking into account wage and employability rates before and after layoff, the researchers estimate that protecting an 'average vulnerable job' in the Sherbrooke area provided gross economic benefits of 36 per cent of the worker's wage. Annual earnings in 1978 averaged approximately $11,200, so the gross benefit of maintaining a job for five years was approximately $20,000 in present-value terms. Offsetting this benefit was the cost of the efficiency losses resulting from the trade restrictions used to protect these jobs from displacement by foreign competition. Glenday, Jenkins, and Evans estimate this cost over a five-year period at $30,400 per job in present-value terms. Thus, in five years, the choice of protection rather than adjustment generated a net economic loss of about $10,400 per job. And, presumably, improved mobility and retraining programs could have reduced the costs of adjustment.

Jenkins' (1980) findings on the costs of protecting the Canadian garment industry are even more striking. He examined, for 1979, the impact of the bilateral quota system and of the tariffs. His estimate is that, for each person-year of employment created by the quota system, the efficiency loss was approximately $14,000; for the tariffs, it was $2,800. Yet the average annual wage in the clothing sector in that year was less than $10,000. Clearly, in this case at least, the cost of protection was well in excess of the highest possible estimate of adjustment costs.

Given these findings, it is disturbing to note that protection remains high in the clothing, textiles, and footwear industries. The tariffs on wool fabrics, artificial fabrics, clothing, and knitted goods range from 20 to more than 30 per cent, and quotas on imports from various foreign sources continue to be imposed. Yet our discussion of political reality suggests that this protection – and the inefficiency it generates – is likely to persist unless the workers whose jobs are endangered are given generous adjustment assistance. The assistance package for those who are laid off should compensate them for the present value of their expected income losses. In addition, those who must relocate to find jobs should be compensated for wealth losses arising from any drop in the market value of worker-owned housing.

Alternatively, when plants shut down in a single-sector community, the

government might consider encouraging other industry to locate there by providing a temporary subsidy (coupled with a retraining program). This alternative could be both politically expedient (because highly visible) and efficient. If housing facilities are scarce in the areas to which workers would otherwise have to relocate to find jobs, such a policy might provide a greater net social benefit than moving the workers. However, this is likely to be the case only if the community is a viable location for the industry, so the new establishments do not require continued subsidies to survive.

Considerations like these may have motivated the federal government's current aid-to-hard-hit-communities program (ILAP), which is discussed in Chapter 3.

MORAL HAZARD AND THE CASE FOR ADJUSTMENT ASSISTANCE

So far this chapter appears to provide a relatively simple guide to adjustment-assistance policy. If an economic change would increase the present value of the stream of goods and services that society can produce, it is efficient and should be allowed to take place; government protective policies preventing that adjustment should be removed. Individuals who would lose as a result of the adjustment should be compensated for their losses. Equity-based and efficiency-based arguments justify this intervention; so does the need to eliminate the threatened workers' incentive to lobby against the socially desirable economic change.

The compensation issue is, unfortunately, complicated by the existence of the moral-hazard problem, which arises in any situation in which an insurance program shields individuals from risk and thereby eliminates or reduces their incentive to take steps to reduce the likelihood of adverse events.

To understand the moral hazard in the case at hand, consider an individual who is contemplating a career choice. He or she can opt to train for, let us say, occupation X or occupation Y. Suppose it is well known that X leads to jobs in high-growth, efficient industries. Occupation Y, however, involves skills used almost exclusively by an inefficient industry, one that survives only because of trade restrictions, so the probability of lasting employment in occupation Y is known in advance to be less than for occupation X. Now further suppose that, any concern over job stability aside, our individual has a *slight* preference for occupation Y. In the absence of a compensation program, he or she would rationally train for X, since the security of employment it offers outweighs the slight preference on other grounds for Y. However, given the existence of a generous adjustment-assistance program, our worker might rationally train for Y. Thus, the

compensation program would present a moral hazard that would have consequences adverse to efficiency in the economy overall.

Against the existence of this moral hazard must be set the political reality already argued: in the absence of a generous adjustment-assistance program, many efficient economic changes will not be politically feasible. Moreover, it would be inefficient not to provide assistance designed to correct for the various externalities associated with unemployment and with the market for retraining. Since some of these externalities arise from the existence of income-support programs, such as unemployment insurance, general welfare assistance, and subsidized health care, one might argue that removal of these programs would eliminate some externalities and reduce the need, from an efficiency viewpoint, for adjustment assistance. Such removal, however, would surely cause severe social unrest and, as noted earlier, there is an efficiency-based public-good argument for programs to prevent that. And, of course, most people would find eliminating welfare programs and unemployment insurance intolerable on ethical grounds.

Conclusion

On balance, the case for a generous compensation program remains strong. However, an appropriate design for that program should prevent adjustment assistance from going to individuals who could clearly have anticipated and avoided the economic hardship. That situation is probably quite rare among workers laid off from declining industries. It may exist for individuals who accept employment with a declining firm shortly before its demise, but this problem can be avoided by imposing a minimum-service requirement for eligibility for adjustment assistance.

TYPES OF ASSISTANCE NEEDED: RECAPITULATION

Once policymakers decide that it is indeed efficient to allow an industry to contract or expire rather than to subsidize it or protect it by trade restrictions,[25] the question arises as to the optimal method of providing adjustment assistance to the affected workers. The rationales for assistance presented in this chapter suggest a mix of instruments:

- *Mobility assistance*. Subsidies to geographic and occupational mobility seem appropriate for dealing with the externalities associated with the creation and persistence of unemployment because such subsidies facilitate re-employment. They involve short-term costs but offer the long-run social benefits of increased productivity as well as a reduction of the proba-

bility of the workers' becoming unemployed in the future. Furthermore, mobility assistance is well-suited to the desire for a fair distribution of the burden of layoffs. The individuals likely to suffer most from mass dismissals are those lacking skills, those whose skills have become obsolete, and those with strong attachments to a small community – in other words, workers who have the least mobility in the labour market. Thus, subsidizing mobility improves efficiency and directs aid to those who need it the most.

– *Retraining aid*. Facilitating retraining is a vital part of mobility assistance. The imperfections in the market for training call for a variety of measures: training loans to individuals; grants or wage subsidies to employers and/or individuals for on-the-job training; grants, including living allowances, to individuals for institutional training; and efforts to collect and disseminate labour-market information, including forecasts of future conditions, so that displaced workers may be directed to training for occupations in which the returns will be greatest.

– *Compensation payments*. Even a program that completely covers the costs of geographic moves and/or retraining will probably not completely compensate the displaced worker for his or her losses, which may include capital losses on owned housing and the psychological costs of relocation. In this case, the adjustment-assistance package should include additional compensation.

Glenday, Jenkins, and Evans (1982) argue that the size of this settlement should be independent of the recipient's subsequent employment experience; compensation programs that tax back part of the benefits if the worker is quickly re-employed create a disincentive to seeking new employment and thereby create inefficiency. Program designers should, however, note an important point. Under a no-tax-back program, the compensation payments will presumably be significantly smaller than under a tax-back program, so the worker's subsequent income (inclusive of compensation) will be more uncertain; he or she may be better or worse off than under the tax-back scheme depending upon how quickly and at what wage rate re-employment is obtained. To ensure that risk-averse workers regard the no-tax-back scheme as acceptable, the compensation payments must err on the side of generosity.

The program design should, however, adjust the payment to the worker's circumstances. The size of the expected loss will vary with the individual's age, sex, and skill level, the unemployment rate in the region, and the community's proximity to a large urban centre, so the compensation payment should vary with these factors. The formula must be based on empirical research that yields quantitative estimates of how these variables affect

individual losses. Some research along these lines has already been undertaken.[26] The payment should not, however, cover all the losses expected from layoff, since mobility and retraining programs should reduce them. The additional payment is necessary only to ensure a total package sufficiently generous to mitigate, if not eliminate, resistance to socially desirable economic change.

– *Other mechanisms*. Three other instruments deserve mention as possible adjustment measures: portable private pension plans, portable wage subsidies, and job-creation projects.

Improving the portability of private pension plans seems important. When a non-vested worker is laid off, part of the wealth reduction arises from the loss of the employer's contributions to the pension plan. The establishment of immediate vesting would increase pension portability[27] and thereby reduce the hardship that results from layoffs. The mechanism used could be as simple as defining plan liabilities in terms of individuals rather than groups.

Jenkins, Glenday, Evans, and Montmarquette (1978) have proposed a program of portable wage subsidies, usable wherever the laid-off worker is re-employed. The idea is attractive, but, as we have seen, it carries the potential danger of perpetuating declining industries and unemployment.

Direct job-creation programs are a common government response to mass terminations. Unfortunately, although they may generate short-term gains, they are unlikely to be beneficial in the long run. The Dodge Report (Canada 1981c) notes that participants in direct job-creation projects rarely find regular employment upon project completion. Only if the funds are used as part of a long-term community-development project is direct job-creation likely to be a fruitful response to layoffs from declining industries.

Conclusions

In summary, the instruments most appropriate for adjustment assistance are: collection and dissemination of labour-market information; subsidies to geographic mobility; loans, grants, and/or wage subsidies targeted to retraining programs; and compensation payments.

3
Adjustment-assistance programs, recent and current

Chapter 2 of this study described the instruments appropriate for providing adjustment assistance to workers laid off from declining industries. Most of these measures are in place in Canada; the question is how well the programs function. This chapter addresses that subject. For each kind of measure, it describes present – and, in some cases, past – programs, then assesses them and makes recommendations. (For quick reference, Table 1 provides a summary of the programs in question.)

Because most adjustment-assistance programs in Canada are federally funded, the chapter focuses on measures financed by Ottawa. The concluding section, however, discusses independent initiatives of the government of Ontario.

PLACEMENT AND INFORMATION SERVICES

Employment and Immigration Canada (EIC) provides placement, counselling, and information services to the unemployed throughout the country. The usual locus and mechanism is the local Canada Employment Centre (CEC).

Placement services

Job referral seems a basic service for assisting the unemployed, but there are some disturbing data regarding the performance of the CECs in providing it. Magun (1981) reports that 62 per cent of job-seekers registered with the CECs receive no job referrals, and only 18 per cent actually obtain a job with CEC assistance. Goldfarb Consultants (1980) surveyed job-seekers regarding their attitudes towards the CECs; 42 per cent of the sample did not use them for assistance in obtaining re-employment. (This figure is all the more striking given that workers receiving unemployment insurance [UI] benefits must register with a CEC in order to maintain eligibility.)

TABLE 1
Federal adjustment assistance, 1983

Type of service	Program name	Program replaced	Benefits
Placement, counselling, and information	Canada Employment Centres (CECs)	National Employment Service; Canada Manpower Centres	Services available to all workers and employers; workers collecting UI benefits must register
Compensation	Labour Adjustment Benefits (LABs)	Adjustment Assistance Benefits (AABs) (also called Pre-retirement Benefits)	Weekly payments to older workers laid off from textiles and clothing industries (since 1971) and footwear and tanning industries (since 1978)
Geographic-mobility assistance	Canada Manpower Mobility Program	-	Reimbursement of part of relocation expenses and/or travel expenses for job search or for training not available in home area
Training - institutional	National Institutional Training Program (NITP)	Canada Manpower Training Program (Institutional Component) (CMTP)	Skill training of various kinds in an educational institution (usually provincial), plus living allowance
	Skills Growth Fund	-	Capital funding for facilities to train in 'priority' (shortage) occupations
Training - industrial	General Industrial Training (GIT)	Canada Manpower Industrial Training Program (CMITP)	Skill training on the job, plus wage subsidy (both subsidies go to employer)

TABLE 1 (continued)
Federal adjustment assistance, 1983

Type of service	Program name	Program replaced	Benefits
	Critical Trade Skills Training Initiative (CTST)	-	Like GIT but specifically for highly skilled trades with labour shortages
	Training allowance supplement for laid-off apprentices	-	Supplements to UI benefits available to laid-off apprentices in critical occupations; training can continue with employer or in an institution
Mixed	Industry and Labour Adjustment Program (ILAP)	-	Aid to communities hard hit by large-scale layoffs. Measures include enhanced living allowances for workers in retraining; portable wage subsidies; enhanced mobility allowances; early retirement benefits; direct job creation (CEP); capital funding (interest-free loans) to firms

Employers, too, are reluctant to use the CECs. Despite the enormous growth of the Canadian economy during the last two decades, the number of job vacancies listed with the Centres in 1980 was approximately the same as the number listed by their predecessor (the National Employment Service of the Unemployment Insurance Commission) in 1960. The Parliamentary Task Force on Employment Opportunities for the '80s (Canada 1981b, 113) reports that employers complain that job applicants referred by CECs are generally people with poor work histories. As the Task Force notes, a 'chicken-egg' problem may exist here. Employers who expect to receive referrals of workers with poor skills or work habits will tend to list only their low-paying jobs with the Centres. Skilled workers, observing the types of jobs listed, will, in turn, avoid the CECs when seeking reemployment. Thus, the image of the CEC as broker for the least desirable positions becomes entrenched.

As suggested in the Dodge Report (Canada 1981c), the CECs' difficulties with placement may also reflect the increasing complexity of training programs. With enrolling people in them taking more and more of counsellors' time, staff effectiveness in obtaining vacancy listings and in counselling and screening applicants inevitably suffers. The Dodge Report recommended increased computerization of placement services as a means of economizing on counsellors' time, and it appears that this suggestion is being followed. In December 1981, the Minister of Employment and Immigration announced that by the end of 1985, all CECs will have nationwide information on vacancy listings and job-seekers. This computer-based system is expected to increase both the speed and the effectiveness of the matching process and to allow CEC staff to spend more time counselling, screening, and gathering labour-market information. More effective counselling and screening, in turn, will likely increase the number and quality of vacancies listed and provide a more attractive service for skilled workers who are seeking employment.

Nevertheless, the matching of job-seekers and vacancies will remain hampered by the fact that employers are not required to list job vacancies with the Centres. A statutory requirement for firms to list all vacancies, coupled with the new computer system, would enable each CEC to have a complete listing of job openings for the entire country.[1]

Information services

Mandatory listing of job vacancies would also fill some of the many gaps in the information available on labour-market conditions in Canada. Society could benefit considerably from accurate, complete information on current labour markets and, as demonstrated in Chapter 2, from reliable

medium- and long-term forecasts. (The latter information is particularly important to workers laid off from declining industries since they are likely to need retraining, and a prerequisite for a successful retraining program is informed judgements about the future.) Yet the labour-market information available in Canada today is widely recognized as far from adequate. The Parliamentary Task Force (Canada 1981b, 46-7) states:

> The most common theme emerging from the evidence presented to the Task Force, is the lack of in-depth information on various components related to the Canadian labour market on local, regional, and national levels. Consequently, many of the witnesses expressed their frustration at trying to plan expansion, relocation, start-ups, and general human resource replacements and acquisitions, without adequate information.

Some information on current labour-market conditions is provided by the quarterly *Forward Occupational Imbalance Listing*, published by the Department of Employment and Immigration. FOIL lists occupations that provincial economists have determined to be in light, moderate, or extreme excess demand or excess supply. But the assessment is strictly qualitative, based on the CECs' job listings, and those, as we have seen, are an inadequate source of information. Furthermore, FOIL projects future imbalances for at most two years.

One might expect that the large-scale forecasting models would generate medium-term labour-market forecasts. To date, however, none of Canada's major macroeconometric models has been disaggregated by occupation, largely because of a lack of detailed occupational data (Foot 1980).

Employment and Immigration Canada's COFOR model does provide medium-to long-term forecasts of labour-market requirements in about five hundred occupations. However, COFOR deals only with the demand side of the market. Supply-side information is available only by age and sex, so estimates of shortages, surpluses, or wage-rate adjustments by occupation have not been possible. Moreover, COFOR's projections assume fixed occupational shares of employment within each industry, and those shares are calculated from census data collected only every ten years. Yet most occupational shares shift continually in response to changes in technology and/or factor prices, so most of the time the information in COFOR's industry/occupation matrix is incorrect. This situation could be corrected by making changes in the monthly Labour Force Survey.[2] It currently reports employment data only for broad occupational categories; a more disaggregated instrument would provide useful information.

Meltz (1982) has identified additional gaps in Canadian labour-market information, including data on vacancies (existing CEC-generated data being incomplete), new hires, job switches (information on interoccupational mobility being completely unavailable), retirements, and earnings by occupation (currently available only in the decennial census). The federal government would be well-advised to follow Meltz's suggestion that it develop an instrument similar to the now-defunct Job Vacancy Survey[3] but including data on earnings and turnover as well as vacancies.

In addition, the current lack of information about informal industrial training – that is, the on-the-job training that takes place outside the apprenticeship system and without the support of the federal industrial training program – is a major reason for the difficulty of forecasting labour supply.

Finally, researchers point out the need for more longitudinal data – that is, data on individuals' labour-market experience over time. Such data would permit more reliable estimates of the effectiveness of retraining programs. As we saw in Chapter 2, longitudinal information on the reemployment and earnings experience of workers laid off from declining industries is also necessary for the design of effective compensation programs.

In brief, the current state of labour-market information in Canada is cause for concern and for reform. Without improved information, counselling services, geographic-mobility assistance, and retraining programs are doomed to be highly inefficient. Some reform is already on the way. In January 1982, the Minister of Employment and Immigration announced a Canadian Occupational Projection System (COPS) designed to yield improved forecasts of labour-market conditions. Since COPS is a part of the new National Training Program, it is described and assessed in a later section of this chapter that details the entire program.

COMPENSATION PAYMENTS

In Chapter 2 we saw that assistance to workers laid off from declining industries should include compensation payments sufficiently large for the total assistance package to offset the losses of income and wealth expected to result from the layoffs. Canada does have a program, the Labour Adjustment Benefit (LAB) program (formerly the the Adjustment Assistance Benefit [AAB] program) that provides such payments, although it is restricted to older workers laid off from designated industries – namely, textiles, clothing, footwear, and tanning – as a result of import competition or industrial restructuring related to government policy.[4]

LAB has several eligibility criteria in addition to that of industry

designation. The establishment where the worker had been employed must have laid off 10 per cent of its work force or fifty employees (whichever figure is smaller) within the preceding twelve months. On the date of layoff, eligible workers must have been employed in the designated industry for at least ten of the previous fifteen years and be at least 54 years old. (In cases of severe financial hardship, assistance may also be given to workers 50 to 53 years of age who have been employed in the designated industry for at least thirty years.) Once established, eligibility continues to age 65.

Compensation payments begin after the worker has exhausted unemployment insurance (UI) benefits. The payments, which are indexed for inflation, are based on 60 per cent of the worker's average insurable earnings during the twenty weeks of employment preceding layoff (thus, the benefit is approximately the same as UI's).[5] Payments are reduced by the amount of any earnings received from re-employment (an effective marginal tax rate of 60 per cent on such earnings).

Data on the number of applicants, claims allowed, weekly payments, and program expenditures are provided in Tables A.1 and A.2 in the appendix to this study. Table A.2 shows a rapid growth in AAB (now LAB) expenditures in 1981/2, with a total outlay of $5.15 million compared to $3.76 million in 1980/1. (This rise undoubtedly reflects the recession's heavy impact on the designated industries.) The data also reveal the geographic concentration of the designated industries; in 1981/2, for example, 86 per cent of the program's expenditures were in Quebec, 13 per cent in Ontario, and 1 per cent in New Brunswick.

Assessment

The lack of longitudinal data on LAB recipients makes a quantitative evaluation of the program's performance difficult.[6] However, some general comments on its adequacy are in order.

At first glance, the program appears quite generous, given the sizeable weekly payments. However, as Glenday, Jenkins, and Evans (1982) note, this evaluation changes when one examines the highly restrictive eligibility criteria and the tax-back. The implicit marginal tax rate of 60 per cent on post-layoff earnings provides a strong disincentive to seek re-employment. A payment that was smaller but independent of earnings would be better.

And why restrict compensation to older workers? To be sure, they are the workers for whom retraining and/or geographic-mobility assistance are least likely to be practical.[7] Those programs may seem a better invest-

ment for younger workers, but even if such aid covers all retraining and moving costs, it may still fail to compensate younger workers for all expected wealth losses arising from the layoff. Thus, lump-sum payments to laid-off workers under age 54 would be advisable. Age should indeed be one factor used in determining the size of payments, but a scheme less discontinuous than the current one would be appropriate. The program design should also take account of other variables, such as the regional unemployment rate and proximity to a large urban centre. Again, one must emphasize the need for longitudinal research to determine the quantitative impact of these and other factors on workers' losses.[8]

LAB's minimum-service requirement mitigates the moral-hazard problem and should continue. The current requirement, however, strikes me as overly restrictive, and it would certainly be so if the scheme were extended to younger workers. The restriction of the program to a few sectors must also be questioned. Surely workers suffer hardship wherever large-scale permanent layoffs occur – especially in single-sector communities. Moreover, wherever the threat of large-scale layoffs leads to a clamour for protectionist measures, the alternative of providing adjustment compensation may offer the best combination of equity, efficiency, and political feasibility. (The recently introduced but soon-to-expire Industry and Labour Adjustment Program corrects somewhat for LAB's overly narrow sectoral restrictions. ILAP is discussed and assessed in a later section of this chapter.)

GEOGRAPHIC-MOBILITY ASSISTANCE

The federal government currently provides mobility assistance under the Canada Manpower Mobility Program, first initiated in 1967. This program awards cash grants to cover part of the moving expenses faced by workers who must relocate to obtain jobs; it also defrays part of the expenses of travelling to another area to explore employment opportunities or to take training courses not available in the home area.

To be eligible for a relocation grant, the recipient must demonstrate that he or she cannot find comparable work in the home community and is moving to a job in the nearest area where suitable positions are available. The amount of the grant depends on family size, distance travelled, and the salary of the new job. In 1981/2, the maximum benefit was $3,000, except in special circumstances. Benefits increase by 50 per cent if the worker moves from a designated labour-surplus area or to a hard-to-fill job (defined by its entry in the National Job Bank's listings of CEC-registered vacancies that cannot be filled locally). In the past, only 15 per cent of the

grant was made available before departure to the new locality, the balance being paid after completion of the move. This arrangement created hardship for many low-income families, and the Department of Employment and Immigration recently announced that the up-front payment would increase to 50 per cent in hardship cases.

Table A.3 gives data on program expenditures and numbers assisted in recent fiscal years. Notice that total expenditures on the program have been quite small relative to those on retraining assistance (see Table A.6). Note, too, that both the number of persons receiving benefits and the size of total program outlays (even in current dollars) have decreased signficantly in the last few fiscal years. Table A.4 provides a detailed breakdown by program category for 1981/2. Grants for permanent relocation accounted for approximately 64 per cent of total payments, with exploratory assistance and travel assistance to seasonal agricultural workers making up most of the rest.

Governmental disincentives to geographic mobility

While the Manpower Mobility Program attempts to promote mobility, many economists have argued that other government policies serve to reduce it. For example, they suggest that such federal initiatives as DREE grants, direct job-creation in depressed areas, tax credits for investment in regions that have high unemployment rates, and equalization payments all discourage mobility. Recent empirical work casts doubt, however, on the idea of these programs' having a significant net effect on interprovincial mobility. Foot and Milne (1981) developed a multiregional model to analyse interprovincial migration from 1961 to 1978. One of its explanatory factors is a variable that equals, for each province, the sum of the federal government's and that province's transfer payments to individuals and industries as well as the provincial government's expenditures on final goods and services. The results show that increasing government payments within a province significantly reduces net out-migration only in Newfoundland and Alberta.[9] Vanderkamp (1983) concludes that the empirical evidence of federal policies' effects on interprovincial migration is weak and that any firm conclusion requires more research. While it is true that migration has worked only slowly to reduce regional disparities, the work of Vanderkamp and Grant (1976) suggests that the lack of speed may arise from phenomena largely unrelated to federal government policies, phenomena such as the large distances in Canada, language and cultural differences across provinces, and the fact that the decline of regionally important industries is often a gradual process.

Provincial governments and mobility

Provincial governments also adopt policies that may impede mobility. For example, Newfoundland requires that Newfoundlanders receive preference for employment in the petroleum industry.

A pervasive problem limiting mobility has been that the provincial governments, which have jurisdiction over educational matters, set varying standards of apprenticeship and professional qualifications, so a skilled worker trained in one province may find that his or her training is not recognized as acceptable in another. Authorities from the various jurisdictions have made some progress towards correcting this situation by developing the Interprovincial Standards Program – often called the Red Seal program – under which apprentices in twenty-three trades may, by passing standard examinations, obtain certification recognized elsewhere. However, although approximately 80 per cent of the country's apprentices are in one of these trades, there are few for which the Red Seal certificate is accepted in all provinces. Moreover, no matter how many provinces technically recognize a certificate, the fact that the quality of training varies across jurisdictions may create difficulties for skilled workers seeking to migrate to obtain employment.

Provincial governments also limit mobility in a more subtle way. Since federal transfer payments to them are tied to population, they are reluctant to see support for out-migration and have expressed this attitude to the federal government. The result, as a federal official has acknowledged,[10] is that the Department of Employment and Immigration does not widely advertise the Canada Manpower Mobility Program; so many workers who would be eligible for benefits are not aware of this source of assistance.

Municipal governments and mobility

Municipal governments may also resist efforts to promote out-migration. Given economies of scale in providing local services, the average cost of serving those who remain behind rises when workers leave the community.[11] For a small community faced with large layoffs, this effect could be quite significant. As Green (1983, chap. 5) notes, the implication is that the mobility program in such a case ought to provide assistance not only to workers who move but also to the community left behind so as to ensure the latter's ability to finance basic municipal services.

Assessment

The existing Manpower Mobility Program, which covers only part of the direct costs of moving, cannot be expected to provide much of an incentive for a laid-off worker to relocate. Glenday, Jenkins, and Evans (1982)

point out that many of the costs of moving – presumably they have in mind such considerations as a higher cost of living, as well as the psychological costs of leaving friends and family – are recurrent, so their present value is likely to be much higher than the one-time direct cost of transporting a household and its effects. For this reason, workers laid off from declining industries who relocate to find work should be eligible for more assistance than compensation for direct moving costs. At the least, grants to cover any capital losses on the sale of their homes should be available.

Policymakers also must realize that mobility assistance is not always an appropriate response to layoffs. If an industry's difficulties are cyclical, rather than representative of a long-term decline, encouraging mobility may be counterproductive.

Moreover, mobility assistance is far from being a panacea to cure Canada's recurring problem of shortages of skilled labour. Betcherman (1982, 69) reports data from the Human Resources Survey indicating that when skills are in short supply, they tend to be so in all regions, so inter-regional migration is unlikely to be an effective general solution to such bottlenecks. In addition, the skills of workers laid off from declining industries may be obsolete.

Nevertheless, for workers laid off from industries experiencing secular decline, comprehensive mobility aid of the sort just discussed can be an important part of the adjustment program.

RETRAINING

Clearly, retraining must often be an integral part of the adjustment assistance provided workers laid off from declining industries. Canada has an assortment of training programs. Many of them have been in place for some time but were renamed and slightly modified under the National Training Act of 1982. Most of the available data on these programs pertains to their pre-1982 incarnations. Accordingly, I shall first discuss the state of retraining assistance before the passage of the National Training Act. Subsequently, I will examine the changes that the act introduces and assess their likely impact.

Retraining assistance before the National Training Act: description

The federal government became heavily involved in the financing of vocational training with the passage of the Technical and Vocational Training Act of 1960. Under it, the provinces retained responsibility for the type of training offered and for administering the training programs, while the federal government paid a large portion of the costs: 75 per cent initially,

50 per cent after a predetermined level of expenditure. Most of the federal outlays went towards the cost of building new facilities, including technical and vocational secondary schools. The number of persons referred annually to training courses grew dramatically: from 8,000 in 1960 to 300,000 in 1966.

In October 1966, the federal government announced its intention of changing this system. Instead of sharing the cost of provincially run programs, it would select the individuals to be trained, pay the total cost of their training (including living allowances), and purchase the required training services as it saw fit – from provincial institutions, from business firms, or from private training schools. The provinces met this proposal with something less than enthusiasm. Ontario was especially upset, for it was already committed to developing its community-college system, into which it planned to integrate adult occupational training. Accordingly, it had no desire to see federal training funds siphoned off to the private sector.

By the time the Adult Occupational Training Act of 1967 was passed, the federal government had compromised greatly. It guaranteed that a large percentage of training funds would go to provincial institutions. The provinces were also left to determine course content. The federal government would purchase places in courses offered by provincial institutions rather than buy courses in their entirety. Futhermore, the cost of seats in the courses was to be determined by a province-wide average, with no allowance for variations among institutions. Thus, the federal intention of obtaining a flexible training system, with services purchased from whatever source offered the best cost-quality tradeoff, was largely frustrated. The provinces did, however, make some accommodation: the selection of adults for training became a federal responsibility, administered by the Canada Manpower Centres (later, Canada Employment Centres).[12]

The result was the Canada Manpower Training Program (CMTP); today's National Training Program simply modifies some of its features.

Institutional training: CMTP

CMTP had two components: one institution-based, the other employer-based. As already indicated, the institutional program used courses in provincial colleges and private vocational schools, mostly the former. Federal-provincial Manpower Needs Committees in each province were supposed to establish the number of individuals to be trained in each occupation, according to the perceived needs of the labour market. In fact, in Ontario at least, these committees met rarely, so training support was largely the aggregate of decisions made at the local level by individual CECs.

CMTP institutional trainees received living allowances in addition to

having their courses paid for. They could be enrolled for a maximum of fifty-two weeks of training. The Canada Employment and Immigration Commission (CEIC) designated training of six types: occupational skill training; basic training for skill development (academic upgrading necessary for undertaking skill training), job-readiness training (for example, learning how to find a job); work-adjustment training (counselling about work habits and attitudes); language training (for immigrants, native peoples, and migrants needing the other official language to obtain work); and the institutional part of apprenticeship training.

On-the-job-training: CMITP and CTST

The employer-based part of CMTP was eventually consolidated under the title Canada Manpower Industrial Training Program. CMITP was designed to alleviate shortages of skilled labour, to assist those who were in danger of becoming unemployed because of technological change or skill obsolescence, and to provide jobs to workers with 'special needs' (workers who would otherwise face difficulty in obtaining and holding permanent employment). The federal-provincial Manpower Needs Committees were supposed to establish priorities to determine the occupational and industrial sectors in which the training subsidies would be granted; provinicial authorities were responsible for monitoring the content of training and assessing its quality and effectiveness. The CEIC reimbursed participating employers for up to 100 per cent of direct training costs and for part of trainees' wages – up to 40 per cent for those who had previously been hired by the company, up to 60 per cent for persons hired specifically for training, and up to 85 per cent for special-needs workers.

In 1979/80, the federal government introduced a supplementary on-the-job training program, the Critical Trade Skills Training Initiative (CTST), which continues to exist under this title today. Its objective is to promote the training of Canadians in highly skilled blue-collar occupations that experience chronic, acute labour shortages. The list of CTST occupations is revised from time to time in the light of changing labour-market conditions. Like CMITP, CTST provides employers with funds towards the costs of on-the-job training, as well as subsidies for trainees' wages. However, unlike CMITP, CTST focuses on high-level skills that require longer training periods – as long as two years. The wage subsidy is normally a maximum of 50 per cent.[13]

Data on CMTP

Data on the institutional component of CMTP, on CMITP, and on CTST are provided in Tables A.5 and A.6 in the appendix.[14] It is interesting to

note that the estimate of the number of trainees who started in 1982/3 is very close to the actual number started in 1975/6 and quite a bit under the peak of approximately 350,000 in 1970. Also, institutional training continues to account for the bulk of the activity under the federal programs. In fact, the ratio of industrial trainees started to total trainees was little changed from 1975/6 to 1981/2 – despite the creation of CTST – and was expected to fall in 1982/3. Expenditures on industrial training as a percentage of total outlays did rise modestly from 10.1 per cent in 1975/6 to 16.6 per cent in 1981/2 but the allocations for 1982/3 show a slight dip to 15.1 per cent.[15]

Not shown in the tables is the fact that expenditures on the training programs stabilized in the late 1970s after declining during the first half of the decade. Also, the percentage of unemployed persons among the institutional trainees rose from 50 per cent in 1970 to 70 per cent in 1980, reflecting the increase in the unemployment rate during this period (Canada 1981c, 231).

Retraining assistance before the National Training Act: assessment

The goal of a training program should be to maximize the difference between the social benefits of training (the increased value of output that arises from the reduction in unemployment, from the improvement in skills, and from the reduction in crime rates and health-care costs) and the social costs of training (the direct costs of the training program plus the trainee's earnings forgone during the training period and the reduction in leisure time). How well did the CMTP meet this goal?

Institutional training

Evaluations available. We have only two comprehensive evaluations of the institutional component of CMTP. One is an interdepartmental study published by Employment and Immigration Canada (Canada 1977a). More recent is an interim EIC assessment (Canada 1982) based primarily on the results of a twelve-month follow-up survey of individuals who completed or withdrew from institutional training courses in 1978/9.[16] Various other studies have, of course, commented on the program.

Concerns. Both EIC studies point to a number of concerns. One relates to course duration: most CMTP training is relatively brief. In 1979/80, the average duration of institutional skill training was just 110 days (Canada 1982, 15, table 3.2), doubtless reflecting the fact that federal support is available for fifty-two weeks at most. Yet, as the Economic Council of Canada notes (1982, 86), most people need lengthy training to obtain the middle- and high-level skills that are most in demand.

Another concern is the inadequacy of living allowances, particularly for trainees who have exhausted their eligibility for UI benefits.[17] This problem has been quite acute – in 1974, the allowance for a trainee with a spouse and four children was below the social assistance level in all provinces except Nova Scotia and New Brunswick (Canada 1977a, 30, table 3) – and apparently, it has persisted. The Parliamentary Task Force on Employment Opportunities for the '80s (Canada 1981b) reports that witnesses appearing before it related many examples of unemployed individuals' remaining on welfare because they could not meet living expenses on the training allowance.

Another finding is that the Atlantic provinces and Quebec received a disproportionate share of federal training funds. For example, in 1975/6, these two regions accounted for approximately half of all enrolments and expenditures, but only 42 per cent of the nation's unemployment and only 33 to 35 per cent of vacancies (Canada, 1977a, 78). The Dodge Report (Canada 1981c, 33) suggested that the training programs in the 1970s were aimed primarily at temporarily reducing unemployment rather than at developing skills in demand. Moreover, altering the geographic distribution of funds is difficult, since multi-year training agreements with the provinces guarantee each a minimum allocation that can be adjusted in real terms very little from year to year. Accordingly, although the federal government said, upon receiving the interdepartmental study in 1977, that it intended to reorient CMTP towards matching workers and employment opportunities (Canada 1977b, 8), disproportionate shares of funds continued to go to provinces with relatively high unemployment rates (Canada 1982, 119-20). This distribution of funds is not necessarily a cause for concern; as discussed in Chapter 2, an appropriate function for training programs is providing unemployed workers with a means of improving their prospects of long-term employment. It is important, however, that the training be in occupations expected to be in demand locally (or that the trainees be prepared to move to an area where they are in demand).

Not surprisingly, given the CMTP's history, almost all federal funds for institutional training went to provincial colleges rather than private-sector training schools; the latter accounted for only 3 to 4 per cent of training days purchased (Canada 1977a, 44). The provinces had the right to veto federal purchases of private-sector courses, even if they offered a better combination of quality and price. Moreover, the practice of setting a common price for a given course throughout a province protected individual institutions from price competition among each other.[18] Provincial officials argue that such protection of public institutions is justified by what an economist would call 'economies of scope': the average costs of providing training are lowest when a given institution provides a wide range of courses,

since facilities needed for some courses can be used at low marginal cost for others. But granting the existence of such economies, if free competition between private and public institutions were allowed, the former would have higher average costs and would, therefore, find it difficult to capture a sizeable market share. In fact, the economies-of-scope defence makes sense only if public institutions cross-subsidize their own courses, offering some below cost and others above. In the absence of protection, private firms could capture a large part of the market for the latter. So one must ask if cross-subsidization serves any useful purpose here. Since no justification is apparent, the economies-of-scope argument seems to collapse. And if private-sector training firms could gain a sizeable market share in the absence of cross-subsidization, it would be because they could provide a more attractive service than do the provincial institutions.

Graduating trainees rarely make use of the Canada Manpower Mobility Program (Canada 1977a, 81). This is unfortunate, since the rigidity in the geographic allocation of training funds could be combatted by training individuals in one province for jobs available in another. This approach would, however, require the provinces to co-ordinate training plans, which they have not done to date.[19] Graduates' lack of use of the mobility program may also reflect the fact that it provides far less than full compensation for the costs of moving.

Cost-benefit analyses. Both evaluations of CMTP provided cost-benefit analysis. Researchers for the 1977 study (Canada 1977a) intended to use a method that estimates the economic benefits of training by comparing changes in employability and/or earnings after completion of training with projections of what the employability-earnings profile would have looked like in the absence of training, taking into account factors likely to influence earnings and employability, such as age, seasonality, and general labour-market conditions. The researchers noted, however, that the available employability estimates were based on a single follow-up survey administered fifteen months after the completion of training in 1972. Because unemployment rates had changed markedly since then, the 1977 researchers regarded earlier estimates as unreliable. Consequently, they based their cost-benefit analysis of institutional training on gains in earnings only, holding employability constant at pretraining levels.

For a fifteen-month period after the completion of training in 1975, they established an estimated average gain in earnings (attributable to training) of approximately 18 per cent of the pretraining level. The analysis rather optimistically assumed this gain to continue to retirement. The benefit-cost ratio was then calculated as the present value of dollar gains (using a discount rate of 10 per cent) divided by the costs of training.

The results were rather favourable to CMTP: a benefit-cost ratio for Canada as a whole of 3.5 for recipients who completed training in 1973, 3.4 for those who completed training in 1974, and 2.5 for those who completed training in 1975. These findings were, of course, heavily influenced by the optimistic assumption of the durability of earnings gains.[20] Yet, approximately one-third of the 1975 institutional-skill trainees were trained in occupations that experienced a slack labour market during 1973 to 1975.[21] Moreover, no adjustment was made for the displacement effect of a graduate's taking a job that would otherwise have been filled by a member of the unemployed.

The more recent evaluation of CMTP (Canada 1982) also included a cost-benefit analysis. The methodology used is not detailed as explicitly as in the 1977 study, but the information given makes it clear that some changes were made, including adjusting for displacement effects and assuming that the net benefits would last only five years after training.[22] The calculations yielded an estimated benefit-cost ratio of 2.7 for persons who completed or discontinued training in 1978/9, a figure that is quite high but somewhat below the one obtained for industrial training in a comparable study discussed in the next section.

This favourable result was obtained in spite of the fact that 39 per cent of the individuals studied were trained in occupations that the FOIL classification identified as experiencing surpluses. Those who completed training in shortage occupations experienced a wage-rate gain of 38.2 per cent compared to only 28.7 per cent for those who completed training in surplus occupations.[23]

Conclusions. These data re-enforce the conclusion drawn in Chapter 2: retraining programs are of greatest benefit when they direct workers into occupations that are expected to be in demand. (Recall the graph of the social gains to be had from rapid attainment of long-run equilibrium in labour markets.) Since shortage occupations typically demand high-level skills and since attaining such skills requires long training periods, we must re-emphasize the importance of extending federal support for training beyond the fifty-two week limit.

Of course, if training programs are to emphasize skills expected to be in demand, it is crucial that the government provide information on current and anticipated labour-market conditions. Furthermore, given the rigidity in the geographic allocation of training funds, the provinces must co-ordinate their training plans so that workers may be trained in one province to fill jobs in another. The need for closer co-operation between federal and provincial authorities is also clear, since the former selects trainees and refers them to courses, while the latter control availability and content. As we

saw earlier, the Manpower Needs Committees have often not been effective in achieving this co-ordination.

On-the-job training

Studies and data. The most recent evaluation of the industrial training program, CMITP, was published in 1981 by Employment and Immigration Canada (Canada 1981a). Like the 1982 assessment of institutional training, this is an interim evaluation, based primarily on the findings of a twelve-month follow-up survey of individuals who completed or withdrew from training in 1978/9.[24] Their employers were also surveyed.[25]

The analysts divided trainees in three categories: those who were already employed by the firm when training began (48 per cent in 1979/80), those who had been unemployed (44.5 per cent), and individuals with special needs (7.5 per cent). Since the concern of this study is workers laid off from declining industries, we will focus here on the findings for the formerly unemployed trainees.[26]

Those in that category who completed training in 1978/9 were employed 40.1 per cent of the time, on average, during the twelve months preceding training and 83.9 per cent of the time in the twelve months following it. Exactly twelve months after training was completed, the employment rate was 72.7 per cent.[27] The largest gain in employability at that time was in Quebec (38 percentage points), the smallest in Alberta (19 percentage points). All age groups gained substantially; the smallest gain was for those 45 years of age or older, but even the employability of this group rose from 40.9 to 66.7 per cent. Furthermore, even workers who received training in low- or medium-level skills gained 24.5 percentage points in employability. Those who received training for high-level skills gained 31.7 percentage points; those in apprenticeship gained 41.2 percentage points.[28] Overall, the trainees who discontinued their programs before completion gained 17 percentage points in employability, a significant increase although much less than the 33-percentage-point gain of the 'completers'.

CMITP trainees also experienced substantial gains in weekly wages. During the twelve months after completing training in 1978/9, the formerly unemployed averaged weekly wages 43 per cent higher than they had earned in the last jobs held before training.[29] Part of this gain was attributable to inflation. (Thirteen to twenty-four months had elapsed between the beginning of training and the time of the follow-up survey, and, as the study notes, industrial wages in Canada had risen 15 per cent during the two-year period ending April 1981.) Wage gains were largest for younger trainees and for those who received either apprenticeship or high-level skill training. However, even those trained in low- or medium-level skills showed a 40 per cent wage gain.

These somewhat impressive gains were obtained in spite of the fact that in 1977/8, 34 per cent of those in CMITP programs (all three trainee categories combined) were being trained in occupations identified by the FOIL classification as experiencing surpluses.[30] The unemployment rate a year after training was, however, twice as high for persons in surplus occupations as for those in FOIL-designated shortage occupations.

Cost-benefit analysis. The evaluation of CMITP includes a cost-benefit analysis; details of the methodology are given (Canada 1981a, 66-9). As is often the case with cost-benefit analyses, one may question a number of the assumptions used in making the calculations. For example, the analysts arbitrarily assumed benefits, measured as increased value of output, to last for at most five years.[31] In calculating what a trainee would have produced in the absence of training, they assumed that forgone production was zero for those who entered training from low- or medium-skill occupations that were not in shortage, on the grounds that such jobs could be immediately filled by an unemployed worker. This approach, however, neglects any consideration of the value of leisure time. Another oddity is the assumption of zero benefits in the second to fifth years after training for anyone who obtained a job in an occupation different from the one trained for. Finally, the analysts included UI payments in the estimated costs of training (and subtracted the savings in UI disbursements that resulted from increased employability after training). They justify this calculation by arguing that the funds for UI payments could have been used for job-creation projects that would have had a larger multiplier effect on national product than transfer payments. Why the difference in these multipliers should be unity remains mysterious.

The benefit-cost ratio reported for the previously unemployed trainee category is an impressive 3.3; the figure for previously employed trainees is 3.6. The questionable assumptions used, however, make it difficult to accept these figures as accurate, although the direction of bias is not clear.

One hopes that future cost-benefit analyses will be done more carefully. Moreover, if Employment and Immigration Canada contracted the task out, it would avoid self-evaluation, which is an inherently dangerous practice.[32]

Future analyses should also disaggregate by age because of the importance of determining at what age (if any) the benefits of retraining assistance are unlikely to cover the costs. The data reported indicate that unemployed workers over age 45 who complete on-the-job retraining do make a substantial improvement in employability; however, the cost-benefit analysis was undertaken only on an aggregate basis. It would help policymakers if future assessments of the training programs reported employability

and earnings gains separately for the age 40-to-44, 45-to-49, 50-to-54, and 55-and-over categories and similarly disaggregated cost-benefit calculations. It would also be useful to study what characteristics (such as education and previous skill level) are associated with those older workers who experience the most success after retraining.

Conclusions. Among the results that do emerge from the EIC evaluation is that workers trained in high-level skills experience the greatest gains. This finding is hardly surprising, but it again points to the need for federal support of training beyond a one-year limit. The importance of reliable labour-market information also re-emerges, since the evidence points to maximum gains being obtained by training in occupations for which demand is increasing.

Another point is that the on-the-job nature of most industrial training creates a special problem: it is inherently cyclical. At times of economic downturn, firms cut back production, reducing the prospects for obtaining training. Apprentices may be laid off before they are able to attain journeyman status. Yet, it is in recessionary times that labour's social-opportunity cost is lowest. Furthermore, given that high-skill training takes a long time, it may be advisable to increase it during recessions to avert labour-market shortages when the upturn occurs. All this suggests that the size of wage subsidies for on-the-job training ought to vary countercyclically.

Before leaving this assessment of the training programs as they stood before the passage of the National Training Act, it is worth noting that a number of commentators have recommended that the existing scheme be replaced or supplemented by some sort of training levy on employers, accompanied by either tax credits for training expenditures or training grants provided to employers out of the funds raised (see, for example, Canada 1981b, 80, and Dawson, Denton, and Spencer, 1982, 81). However, we have seen that employers may not benefit from providing general training. Accordingly, supporting such training through government loans to workers (which is not yet done) and wage subsidies (which is) appears more appropriate than through a levy on employers, for reasons of both equity and efficiency. A possible justification of a levy-grant or levy-credit scheme, however, is that it would allow employers, rather than government, to control training expenditures and to purchase training from whatever source offers the best combination of quality and cost. This argument runs aground on the current political reality of protected provincial institutions. Transfer of control over training purchases from government to firms and/or the individuals being trained is a desirable long-run goal, but it need not require the imposition of training levies. Rather, the government could pro-

vide the grants or wage subsidies for on-the-job training directly to the workers or the employers, who would then be free to choose the 'location' of training.[33] If associations of employers wished to supplement government funds by means of a levy on members, they would, of course, have this option, but doing so should remain voluntary.

The new National Training Program: description

On 7 July 1982, Bill C-115, the National Training Act, received Royal Assent. Let us turn to an examination of this act, the changes it has brought about, followed by an assessment of its likely impact.

The main purpose of the new act is to increase the effectiveness of federal expenditures on training by targeting them to occupations that are in demand rather than to the temporary removal of individuals from the ranks of the unemployed. It also attempts to rectify other problems identified in earlier programs.

In brief, the new system of training subsidies:

- Designates occupations with serious national or regional shortages as 'priority' occupations (or 'occupations of national importance').

- Creates a Skills Growth Fund for capital funding of facilities for training in 'priority' occupations.

- Continues the CTST program of up-to-two-year subsidies for on-the-job training in shortage occupations.

- Renames as the General Industrial Training program (GIT) the old CMITP subsidies of up to one year for other on-the-job training.

- Subsidizes continued training for apprentices who are laid off.

- Renames as the National Institutional Training Program (NITP) the old CMTP subsidies for institutional training and makes various adjustments aimed at increasing the number of workers trained in demand occupations.

- Relies on a new system of labour-market information – the Canadian Occupational Projection System (COPS).

How the program will work

Capital funding. For the first two years of the new Skills Growth Fund, the government has set aside $108 million to provide capital grants for the expansion or establishment of facilities for training workers in the priority occupations (as well as for training special-needs workers). Grants can go to provinces or to private nonprofit organizations. Federal-provincial

committees are to perform the initial review of proposals in light of perceived labour-market needs, but the final authority for project approval rests with the CEIC.

On-the-job-training. Skills in critically short supply in only a small local area are unlikely to be designated priority occupations, and thus, training facilities for them would not receive grants from the Skills Growth Fund. These occupations, however, like the priority occupations, remain eligible for special treatment under the CTST initiated in 1979/80. CTST provides wage subsidies for as much as two years of training in occupations designated as critically short, whereas GIT, like its CMITP predecessor, provides one year of support at most.[34] GIT is to concentrate on training workers for other occupations in demand, retraining workers affected by technological change or industrial restructuring, training the unemployed, training women in nontraditional occupations, and training adults with special needs.

Other provisions of the National Training Act that affect industrial training include:

- Special aid for apprentices laid off from training in critical skills.[35] They can now receive special training-allowance supplements (in addition to UI benefits) to enable them to continue training either with their regular employers (without pay) or in community colleges until re-employment can be secured.

- Training by groups other than employers. The act provides for negotiating training contracts with industrial training councils, including private training organizations, to enable small employers to obtain training services that they would otherwise be unable to provide.

Institutional training. Federal support for institutional training under the act is referred to as the National Institutional Training Program, replacing the CMTP. The types of training offered are unchanged; however, basic academic up-grading is being phased down in fields where such courses do not appear to improve job prospects. Instead, the program designers are seeking to integrate upgrading courses more closely with skill training.

Support for the institutional component of apprenticeship training is also being re-oriented. In the past, the federal government subsidized all costs of classroom training for apprentices in any occupation. Now, it is reducing overall funding for apprenticeship training, restricting support to priority occupations and others that the CEIC designates as being in demand and that have Red Seal status (indicating interprovincial agreement on standards).

Other provisions of the National Training Act that affect institutional training include:

- Training without a one-year delay. Formerly, persons who dropped out of the school system had to wait one year before being referred to institutional training. For training for skills that are in demand, the CEIC now may waive this restriction.

- Longer training courses. The CEIC may now support institutional training beyond the old fifty-two-week limit. This extension is particularly likely to be granted for courses in the priority occupations.

Labour-market information: COPS. COPS, a new method of generating labour-market information, is a key to the entire new system. For many years, analysts have emphasized the need for improved labour-market information, and several provinces, including Alberta, Ontario, and British Columbia, have already committed resources to gathering it. (For example, the Ontario Manpower Commission has been developing a method of forecasting occupational supplies, based in part on studies of the occupational-choice patterns of various groups of labour-force entrants.) COPS is the federal response to this lead.

COPS is designed to provide projections of imbalances in highly skilled occupations for a three- to ten-year period. As noted earlier, a lack of labour-market data has made projections of imbalances difficult to obtain in the past. The CEIC intends to rectify this situation by supplementing information from existing sources with information obtained from provincial governments, other federal departments, industry, and unions. Moreover, it will designate priority occupations only after consultation with these groups.

Jurisdiction. The new act does little to make less rigid the distribution of funds across provinces and between public institutions and private training schools. The agreements with the provinces, as for CMTP, guarantee that federal training expenditures within any province can be reduced only very slowly.[36] Furthermore, the provinces retain their right of veto over institutional training courses given by nonpublic institutions and continue to control community-college curricula. They have also obtained the right to veto grants the Skills Growth Fund makes to private organizations (which, in any case, must be nonprofit organizations in order to be eligible for these funds).

Subject to these restrictions, however, the new program does give the federal government ultimate authority for designating priority and CTST occupations and for approving applications for assistance from the Skills

Growth Fund. Consultation on training requirements will continue to occur through joint federal-provincial committees in each province. The Ontario Joint Committee is expected to meet more frequently and to have more carefully drawn terms of reference than did the old Manpower Needs Committee. Apparently, both the province and the national CEIC office will exercise more influence on trainee selection than they did in the past, when most decisions were made by local CECs.

The new National Training Program: preliminary assessment

The primary goal of the National Training Act is to increase the effectiveness of federal expenditures for training by re-orienting the training programs towards rectifying labour-market imbalances. Some of its provisions are obviously steps in the right direction. Questions remain, however, most especially concerning labour-market information. Moreover, the new act does not address some serious problems.

COPS

The new program's ability to achieve the goal of tying training to labour shortages will depend heavily on whether or not COPS is successful in greatly improving labour-market information and forecasts. The details of COPS's operation have not yet been articulated. Our knowledge of the supply side of labour markets is currently weak, especially concerning interprovincial mobility and on-the-job training outside the provincial apprenticeship systems. Exactly how COPS will address these problems is not clear. (On the demand side, the intention is to update information from the decennial census by means of special sectoral studies as well as judgements from the provinces, unions, and industry.)

Once COPS's methodology is set, one hopes that it will be communicated clearly to those who will use the data, so that they will be aware of assumptions made. Siddiqui (1980, 35-56) suggests that users may wish to generate their own forecasts by altering one or more of the assumptions.

A key problem for COPS will be taking account of informal training activities in industry. In 1978, Ontario began an interesting initiative in this regard, creating Community Industrial Training Committees (CITCs) under the provincial Employer Sponsored Training program.[37] Their members include representatives of local industry and unions as well as schoolboard, community-college, and federal and provincial manpower officials. In addition to initiating training projects, these committees collect local labour-market information. The advantage of this decentralized approach is that committee members are more likely to detect informal sources of

supply and obtain more accurate information than would a survey undertaken by the federal or provincial government. Further study of the CITCs' success is warranted. It may be that this approach, extended widely throughout Canada, could provide the information necessary for COPS to be effective in projecting imbalances.[38]

Unresolved problems

The new program leaves unresolved a number of problems. Living allowances for institutional trainees with many dependents remain inadequate. No initiative has been undertaken to provide loans to trainees, in spite of the recommendation of the Parliamentary Task Force (Canada 1981b, 91) that the Canada Student Loan program be revised to include all accredited training activity. Public institutions continue to be protected from competitive private-sector training schools. Furthermore, the development of evaluation models is to be the joint responsibility of the CEIC and provincial manpower officials. Once again, those responsible for delivery of the training programs will be evaluating themselves.

A SPECIAL INITIATIVE FOR HARD-HIT COMMUNITIES: ILAP

Earlier sections of this chapter criticized the narrowness of the Labour Adjustment Benefit program, as well as the inadequacy of assistance under the Canada Manpower Mobility Program. On 19 January 1981, the federal government announced a new initiative that partially addresses these concerns: the Industry and Labour Adjustment Program (ILAP). Although it included such general measures as increasing the advance notice of dismissal required of firms in federally regulated industries, its major component is a temporary, three-year program of community-based adjustment assistance with a budget of $350 million.

The purpose of ILAP is to promote industrial restructuring and labour adjustment in communities hit by large-scale layoffs in particular industrial sectors. Only the most severely affected communities are to be designated. (In ILAP's first eighteen months, only ten communities were deemed eligible.) The initial designations are for one year; two six-month extensions are possible.

ILAP's adjustment assistance to labour includes several measures. Workers laid off (from designated industries within the designated communities) who enter training for high-demand occupations are eligible for enhanced living allowances: 70 per cent of their previous insurable earnings (instead of the 60 per cent UI provides).[39]

Laid-off workers who are 45 or more years of age, have had at least two

years of employment out of the last ten with the affected industry, and have little prospect of early re-employment are eligible for a portable wage subsidy of $2 per hour for up to twelve months, tenable anywhere in Canada. The employment obtained must pay the going rate for that type of job and must not displace any employees of the hiring firm.

ILAP also provides enhanced mobility allowances: three times the usual assistance level, up to a maximum of $9,000, is available to workers who relocate to obtain employment. There are also early retirement benefits available to displaced workers between 54 and 65 years of age who have had at least ten years employment in the industry during the fifteen-year period preceding the layoff. The benefit level is 60 per cent of the average weekly insurable earnings for the twenty weeks before layoff. (This assistance amounts to an extension of the LAB program, previously available only in the clothing, textiles, footwear, and tanning sectors.)

A direct job-creation initiative under ILAP is called the Community Employment Program (CEP). Its projects provide temporary employment, at 20 per cent more than the provincial minimum wage, for displaced workers who have exhausted or are about to exhaust their UI benefits.

ILAP also includes a measure to promote industrial adjustment: firms willing to undertake new investments (or expand or restructure existing ones) in the designated communities are eligible for interest-free loans for as much as 50 per cent of the capital costs of the project.[40]

Assessment

These measures may seem an impressive array, and ILAP does represent an improvement over previously available adjustment assistance. However, it is inadequate in many ways. For example, its rather meagre budget has meant that only a small number of communities could be designated for aid and those only for a short time. Furthermore, even the greatly increased mobility assistance is inadequate in that it fails to compensate for capital losses on the sale of housing. The portable-wage-subsidy and direct-job-creation measures are unlikely to have any lasting effect on re-employment and should be phased out. Instead, workers should be referred for assistance under the National Training Program (which includes wage subsidies for on-the-job training).

Thus, it is not surprising that the government has had difficulty spending even the small ILAP budget. In fact, most ILAP 'expenditures' have been for interest-free loans to industry. During the program's first eighteen months, it spent only about $11 million on the measures for laid-off workers (see Table A.7 in the appendix).[41] Only 870 individuals had received vouchers for portable wage subsidies, and, according to a *Globe*

and Mail report (17 May 1982, 81), only a small portion of these are being used since the recipients are finding it difficult to obtain re-employment even with the vouchers. And only eighty-seven people had made use of ILAP's high mobility allowances.

With its inadequacies corrected, however, ILAP could be a very useful program – one that ought to be continued beyond its scheduled expiry date of March 1984.

SPECIAL INITIATIVES BY ONTARIO

While the bulk of adjustment assistance and retraining in Canada is federally funded, the provinces have also undertaken expenditures in these areas. Ontario's include a program to upgrade workers' skills, a new approach to gathering labour-market information for planning training programs, and a pilot project of counselling for laid-off workers.

Upgrading skills. The Training in Business and Industry Program (TIBI) is designed to enable firms to respond to technological change by upgrading their workers' skills rather than laying them off. Federal support for upgrading is available but only for a limited number of skills. Under TIBI, the provincial government pays one-third of the cost of 10 to 240 hours of upgrading instruction. Expenditures on TIBI had grown only slightly in recent years, from $3 million in 1976/7 to $3.3 million in 1980/1 (Dawson, Denton, and Spencer 1982, 61, table 3.15). In January 1981, however, the government announced that, as part of its BILD (Board of Industrial Leadership and Development) program, it would greatly expand TIBI. The 1983/4 allocation totals $13.8 million.

Information-gathering. The Ontario government's most important contribution to adjustment assistance has been the establishment of the Community Industrial Training Committees (CITCs) mentioned in the discussion of the National Training Act. These committees, whose members are from local unions, industries, school boards, community colleges, and federal and provincial manpower offices, survey local employers concerning their requirements for skilled labour and so determine the type and amount of training the community requires. They then seek to co-ordinate plans to ensure the provision of that training, either on the job or at local community colleges. If the Ontario Ministry of Colleges and Universities and the CEIC approve a committee's proposals, wages for on-the-job trainees and the instruction costs of industrial or institutional training are then eligible for subsidies under the various federal training programs.

According to the Economic Council of Canada (1982, 86), the CITC

program has proved an advantageous mechanism for the co-ordination of training activities on a local level. As already noted, it also serves the important purpose of generating a great deal of information about labour-market conditions.

Counselling. Ontario recently began a pilot project for a Counselling and Training Program. Jointly funded by the province and participating employers, this project involves contracts drawn up between community colleges and employers who are laying off workers. The colleges provide group and/or individual counselling on job-search and/or retraining prospects. This initiative is currently being applied to partial or complete shutdowns that affect fifty or more employees. Its continuation or expansion depends upon the results of an ongoing evaluation.

4
Summary of recommendations

The previous chapters examined both the theoretical rationales for various forms of aid to workers in declining industries and the adequacy of the instruments currently used in Canada for providing such aid. This chapter gathers together the principal policy recommendations that emerge from this analysis.

INFORMATION GATHERING AND DISSEMINATION

As noted in Chapter 2, a public-good argument exists for government provision of labour-market information. Yet as we saw in Chapter 3, there are many gaps in the information currently available. Better labour-market information would greatly promote the matching of laid-off workers to jobs and help prevent the training of workers for jobs that do not – or soon will not – exist.

Several steps ought to be taken to improve the information available. All firms should be required to list all job vacancies with the Canada Employment Centres so the CECs can maintain a complete national listing of jobs available. The monthly Labour Force Survey, which currently reports data only for broad occupational categories, should be redesigned to provide more disaggregated information. Furthermore, the federal government should follow Meltz's suggestions (1982) and begin a quarterly survey of earnings and turnover by occupation.

Some researchers have undertaken longitudinal studies of workers laid off from declining industries, and Employment and Immigration Canada has surveyed those assisted in training programs. More such longitudinal research needs to be done. In particular, to aid the design of compensation programs, there is a need to examine the post-layoff experience of the recipients of Labour Adjustment Benefit (LAB) assistance, to determine the size of their actual wealth losses and to uncover the effects of such

variables as age, skill level, the regional unemployment rate, and proximity to a large urban centre on these losses. Longitudinal studies of recipients of geographic-mobility assistance should also be undertaken.

LABOUR ADJUSTMENT BENEFITS

When mass layoffs are threatened within a given industrial sector we can expect to see lobbying efforts that block or delay economic restructuring. Thus, the goal of achieving efficient adjustments to economic change requires that those who would suffer significantly be compensated for their losses. Our concepts of equity suggest the same thing.

Retraining and/or geographic-mobility assistance, even if it covers all the costs of moving and learning a new skill, is unlikely to compensate for all the expected earnings losses of individuals laid off from declining industries, especially – but not only – if they are older workers. The existing LAB program does provide some of the compensation required, but it needs a number of reforms. Payments should be independent of recipients' subsequent earnings, so as not to discourage re-employment. This change would permit reducing the compensation rate somewhat, but only slightly for workers close to retirement age. Workers under age 54 should be eligible for compensation, but in smaller amounts than are provided older workers. (Specification of the compensation rates to be used requires more longitudinal research. Payments should also vary with the skill level of the worker, the regional unemployment rate, and proximity to a large urban centre.) The number of years of service in the industry required for eligibility for assistance should be reduced. Furthermore, the LAB program should be extended beyond the textiles, clothing, footwear, and tanning industries. The Industrial and Labour Adjustment Program (ILAP) has taken a step in this direction, but an inadequate and underfunded one. Wherever large-scale permanent layoffs occur in a particular industrial sector, LAB assistance should be offered.

Portable wage subsidies and short-term job-creation programs, currently offered under ILAP, are unlikely to provide any long-run impact on employability and should be phased out.

GEOGRAPHIC-MOBILITY ASSISTANCE

The Canada Manpower Mobility program currently covers only part of the direct costs of a move. All such costs should be covered. In addition, laid-off workers from isolated or single-sector communities should receive compensation for capital losses upon the sale of housing units. In cases

where the need for adjustment is clear (for example, in industries that currently survive only because of massive trade protection), some compensation for the psychological costs of a move should also be considered. Furthermore, it may be necessary to provide funds to some municipalities from which exodus has occurred to enable them to finance basic services for those persons who remain in the community.

RETRAINING ASSISTANCE

In Chapter 2, we saw that unemployed individuals may rationally refrain from investing in socially desirable retraining for a variety of reasons: they do not bear all the social costs of continued unemployment; they may lack the collateral needed to finance a training program; they may be poorly informed about the future employment prospects of alternative occupations; minimum-wage laws may reduce training opportunities. Thus, government should provide both loans and subsidies to support retraining. Furthermore, it is important for government to strive to obtain and disseminate accurate forecasts of medium-term labour-market developments so workers can be guided into training for skills that are expected to be in demand, rather than highly specific skills that turn out to be in surplus upon program completion.

Government programs to subsidize training have been in place for some time. With the passage of the National Training Act in 1982, the federal government moved towards making such programs more effective at preparing people for jobs that are actually in demand. However, a number of avenues for fruitful reform remain. Living allowances for institutional trainees with many dependents should be increased. Government loans should be made available to trainees through an extension of the Canada Student Loan program, as suggested by the Parliamentary Task Force on Employment Opportunities for the '80s. Wage subsidies for on-the-job training should vary counter-cyclically. If further study confirms the indications of the success of the system of local Community Industrial Training Committees adopted in Ontario, the other provinces should be encouraged to undertake similar initiatives. Such a move would increase co-ordination of training activities while generating much useful labour-market information. Finally, the provinces should consult with each other in developing training plans so that those with training resources in excess of their expected requirements for skilled labour can train workers for jobs elsewhere.

In the long run, the provinces should also allow free competition between public institutions and private-sector training schools. Employers or individuals, upon being granted federal support for classroom training,

should be able to purchase it from whatever source offers the best combination of quality and cost. The Canada Employment and Immigration Commission should, however, retain the right to restrict its support of training funds to occupations that are expected to be in demand, since individuals with strong preferences for occupations that are expected to be in surplus would not face all the resulting social costs should they fail to find employment.

ILAP

The Industry and Labour Adjustment Program is scheduled to expire in March 1984. Some aspects of ILAP must be criticized: its wage-subsidy and short-term job-creation components are unlikely to have a lasting impact; its mobility assistance fails to compensate for wealth losses on worker-owned housing; it does not allow for compensation payments to workers under age 54 who are laid off from a declining industry; its meagre budget forces it to be overly restrictive in designating communities eligible for aid.

ILAP has, however, provided a useful mechanism for extending adjustment-assistance benefits beyond the textiles, clothing, footwear, and tanning industries. Also, as noted in Chapter 2, its subsidies to industrial expansion in the designated communities may yield net social benefits in certain circumstances. Accordingly, when ILAP expires, one hopes that the result will be not a vacuum; rather, it should be replaced by a new, better-funded program that remedies the current problems.

EVALUATION METHODS

In the past, federal programs such as the Canada Manpower Training Program and the Canada Manpower Industrial Training Program have been evaluated internally. From now on, evaluations of the LAB, mobility, and training programs, as well as the new Canadian Occupational Projection System, should be contracted to independent investigators. Cost-benefit analyses of retraining programs should be disaggregated by age group to assist in determining their usefulness for older workers.

To conclude, although Canada currently has a sizeable array of adjustment-assistance measures in operation, they offer considerable scope for reform.

Appendix
Data on federal government programs

TABLE A.1
Labour Adjustment Benefits, as of October 1982

	Textile and clothing workers	Footwear and tanning workers
Claims		
Pending at end of September	275	21
Filed	201	5
Total pending and filed	476	26
Allowed	25	3
Disentitled	3	-
Potential entitlement established	66	1
Unable to qualify	30	-
Pending at end of October	352	22
Total active claims at end of month	857	71
Cumulative filings since 1972	2366	121
Total allowed	1405	81
Total disentitled	61	-
Potential entitlement established	286	12
Unable to qualify		
Not certified	109	1
Failed age requirement	66	-
Less than 10 years in industry	70	2
Not certified by CEC	17	3
Total	262	6
Payments		
Total for September	$563,061.28	$33,358.44
Total for October		
Quebec	$521,113.71	$56,815.38
Ontario	45,699.80	4,253.00
New Brunswick	848.81	-
Total	$567,662.32	$61,068.38
Average weekly payment	$156.04	$164.16
Cumulative total since 1972	$22,717,985.05	$967,886.52
Average weekly payment	$115.66	$140.03

SOURCE: Employment and Immigration Canada.

TABLE A.2
Adjustment Assistance Benefit program

	Expenditures				Claims			
	Quebec	Ontario	N.B.	Total	filed	allowed	in payment	Av. weekly payment
Textile- and clothing-industry workers								
1971/2[a]	–	–						
1972/3	$ 143,572.36	$ 24,469.58		$ 15,767.05	28	27	26	$ 47.35
1973/4	–	–		168,041.94	121	108	96	47.02[b]
1974/5	–	–		338,199.06	165	148	114	50.52
1975/6	–	–		354,238.23	232	215	108	56.58
1976/7	761,341.14	266,737.24	$ 1,585.26	541,609.34	352	301	168	70.78[b]
1977/8	1,720,200.50	299,598.65	48,989.98	1,077,068.36	610	506	302	80.36[b]
1978/9	2,035,807.07	463,482.96	58,771.58	2,078,570.73	799	619	387	97.72
1979/80	2,676,462.32	418,142.32	48,822.87	2,548,112.90	886	715	466	107.15[b]
1980/1	3,113,600.45	466,627.19	30,439.34	3,125,043.98	1044	848	489	121.03
1981/2	4,185,515.12	650,429.61	19,668.46	3,599,896.10	1160	977	512	136.29
			13,028.52	4,848,973.25	1617	1229	716	149.14
Footwear- and tanning-industry workers								
1977/8	–	–	–	$ 24,274.16	–	–	–	$ 89.46
1978/9	–	–	–	56,471.55	14	14	14	98.87
1979/80	–	–	–	157,676.80	27	27	22	134.02
1980/1	–	–	–	156,342.82	27	27	19	144.70
1981/2	–	–	–	296,941.32	54	53	49	152.51

a Data for only last quarter, when expenditures began

b Based on incomplete data

SOURCE: Kendall (1982)

TABLE A.3
Canada Manpower Mobility Program: number of assistances authorized and expenditures ($000, current dollars)

	1975/6		1976/7		1977/8		1978/9		1979/80		1980/81		1981/2	
	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$	Number	$
Newfoundland	4,514	922.6	12,122	1,283.2	3,015	1,302.0	2,846	1,227.7	1,429	1,066.5	1,534	1,453.2	2,494	2,905.4
Nova Scotia	5,779	830.1	4,232	671.3	3,640	722.5	3,850	650.5	2,808	745.5	977	646.3	2,058	851.2
New Brunswick	2,292	440.3	3,834	395.5	2,147	540.9	2,184	604.9	2,315	721.1	1,463	617.5	1,659	878.6
P.E.I.	235	53.8	176	30.9	159	26.5	166	41.2	167	32.0	211	102.5	316	160.6
Quebec	21,098	5,040.8	17,065	3,144.2	18,990	3,542.9	16,961	3,271.3	15,356	3,122.1	7,309	1,360.0	9,488	2,056.0
Ontario	6,884	2,347.1	34,977	1,466.2	11,345	2,302.2	12,110	2,848.0	9,405	2,607.5	9,574	2,775.6	13,128	2,931.3
Manitoba	725	437.4	830	192.1	2,736	202.9	1,569	223.7	2,506	221.0	3,667	233.9	4,883	366.2
Saskatchewan	474	295.2	449	118.9	484	154.3	658	167.5	366	127.5	255	77.7	297	110.1
Alberta & N.W.T.	816	657.1	558	184.8	890	241.2	788	229.0	385	138.3	232	89.4	247	79.7
B.C. & Yukon	4,401	1,934.4	3,460	1,294.9	3,532	1,449.3	4,343	1,478.4	1,927	785.5	940	372.7	1,088	412.4
Total	47,218	12,958.9	77,703	8,782.0	46,938	10,484.9	45,475	10,742.2	36,664	9,566.9	26,162	7,728.8	35,658	10,751.4

SOURCE: Annual reports of Employment and Immigration Canada. (For data on number of assistances prior to 1977/8, see annual reports of the Department of Manpower and Immigration. The provincial breakdown for 1979/80 is not available in that annual report but was provided by EIC.)

TABLE A.4(a)
Canada Manpower Mobility Program: number of assistances authorized, 1981/2

	Relocation	Exploratory	Special travel	Temporary employment	Student mobility	Seasonal agriculture	Contingency return	Total
Newfoundland	1,143	387	304	569	11	79	1	2,494
Nova Scotia	424	356	323	186	57	711	1	2,058
New Brunswick	529	244	65	265	25	528	3	1,659
P.E.I.	80	62	3	5	–	166	–	316
Quebec	1,670	1,902	76	368	106	5,356	10	9,488
Ontario	1,947	1,396	254	370	173	8,938	50	13,128
Manitoba	200	341	64	11	2	4,243	22	4,883
Saskatchewan	133	144	12	1	–	3	4	297
Alta. & N.W.T.	79	86	19	28	–	10	25	247
B.C. & Yukon	644	385	19	8	20	1	11	1,088
Total	6,849	5,303	1,139	1,811	394	20,035	127	35,658

TABLE A.4(b)
Canada Manpower Mobility Program: expenditures, 1981/2 (in dollars)

	Relocation	Exploratory	Special travel	Temporary employment	Student mobility	Seasonal agriculture	Contingency return	Total
Newfoundland	2,530,603	164,676	10,311	176,664	3,590	17,447	2,100	2,905,391
Nova Scotia	537,475	162,037	12,617	85,088	20,618	32,194	1,142	851,171
New Brunswick	595,779	105,639	5,113	86,580	8,215	76,436	804	878,566
P.E.I.	116,073	35,100	234	2,110	–	7,053	–	160,570
Quebec	856,764	466,234	3,002	76,788	22,628	629,498	1,081	2,055,995
Ontario	1,617,570	473,598	14,126	70,979	41,235	695,962	17,828	2,931,298
Manitoba	162,326	106,868	5,655	2,205	59	47,061	42,019	366,193
Saskatchewan	70,474	36,931	573	360	–	145	1,650	110,133
Alta. & N.W.T.	40,826	26,364	2,245	1,686	–	800	7,789	79,710
B.C. & Yukon	303,584	94,706	3,261	1,766	3,304	113	5,674	412,408
Total	6,831,474	1,672,153	57,137	504,226	99,649	1,506,709	80,087	10,751,435

TABLE A.5
Institutional and industrial training: number of trainees started

	1975/6	1976/7	1977/8	1978/9
Institutional training	213,184	236,481	229,679	207,558
Industrial training	61,389	60,788	69,698	78,936
Critical trade skills	–	–	–	–
Total	274,573	297,269	299,377	286,494
	1979/80	1980/1	1981/2	1982/3[a]
Institutional training	225,627	223,826	219,494	222,800
Industrial training	83,334	79,863	67,746	39,681
Critical trade skills	502	4,102	5,486	9,167
Total	309,463	307,791	292,726	271,648

a Estimate

SOURCE: Annual reports of Employment and Immigration Canada. Data for 1981/2 and 1982/3, not published at time of writing, were provided directly by EIC.

TABLE A.6
Institutional and industrial training: program expenditures (millions of dollars)

	1975/6	1976/7	1977/8	1978/9
Institutional training:				
Purchase expenditures	269.4	285.3	302.2	331.7
Allowances paid to trainees	186.3	200.2	190.8	117.0
Unemployment insurance	–	–	19.0	102.7
Subtotal	455.6	485.5	512.0	551.4
Industrial training	48.7	59.5	76.7	83.7
Critical trade skills	–	–	–	–
Training improvement program[a]	2.3	2.7	2.5	2.3
Total	506.6	547.7	591.2	637.3

	1979/80	1980/1	1981/2	1982/3[b]
Institutional training:				
Purchase expenditures	345.9	395.0	419.9	488.3
Allowances paid to trainees	84.2	103.6	105.7	113.3
Unemployment insurance	140.7	157.8	166.5	195.0
Subtotal	570.9	656.4	692.1	796.6
Industrial training	101.3	106.1	111.0	83.3
Critical trade skills	0.7	7.5	26.7	57.9
Training improvement program[a]	0.1	–	–	–
Total	672.9	770.0	829.8	937.9

a This program funded projects conducted by the provinces to improve the effectiveness and efficiency of training purchased by the federal government. It was terminated on 31 March 1979.
b Figures for 1982/3 are allocations.

SOURCE: See Table A.5

TABLE A.7
Industry and Labour Adjustment Program (ILAP), aid to laid-off workers by designated community, 1 April 1981 to 30 September 1982

Portable Wage Subsidy program (PWS)

	Agreements signed	Vouchers issued	Value of agreements 1981-2	1982-3	1983-4	Commitment ($000) (active and potential agreements)
Asbestos, Que.	1	15	–	2.4	1.8	58.2
Brantford, Ont.	2	29	–	6.9	1.1	112.3
Chatham, Ont.	16	137	0.1	58.0	7.1	503.4
Kitchener/Waterloo, Ont.	1	13	–	2.2	2.0	49.9
McAdam, N.B.	1	11	–	4.2	–	41.6
Montmagny/L'Islet, Que.	91	162	0.4	380.6	38.0	295.4
Port-Cartier/Sept-Iles, Que.	5	47	3.5	12.0	4.5	174.7
Sydney, N.S.	–	–	–	–	–	–
Tracy/Sorel, Que.	98	12	14.2	28.0	2.0	357.8
Windsor, Ont.	358	34	55.0	65.1	1.5	1,347.8
Total	870	163	73.2	519.0	58.0	2,941.1

Community Employment Program (CEP)

	Approved projects	Jobs	Work weeks	Federal contribution ($000)
Asbestos, Que.	16	83	2,041	499.5
Brantford, Ont.	8	73	1,273	311.1
Chatham, Ont.	10	70	1,578	377.6
Kitchener/Waterloo, Ont.	1	45	990	258.1
McAdam, N.B.	11	67	1,634	435.9
Montmagny/L'Islet, Que.	17	94	1,928	493.3
Port-Cartier/Sept-Iles, Que.	16	204	4,604	1,230.0
Sydney, N.S.	24	159	3,607	820.7
Tracy/Sorel, Que.	37	194	4,292	1,144.5
Windsor, Ont.	24	323	10,109	2,412.5
Total	164	1,312	32,056	7,983.2

Enhanced Mobility Allowances

	Temporary relocation		Permanent relocation	
	Number	$000	Number	$000
Asbestos, Que.	–	–	–	–
Brantford, Ont.	3	0.4	5	17.1
Chatham, Ont.	–	–	5	16.4
Kitchener/Waterloo, Ont.	–	–	–	–
McAdam, N.B.	–	–	1	2.9
Montmagny/L'Islet, Que.	–	–	–	–
Port-Cartier/Sept-Iles, Que.	7	2.5	35	68.1
Sydney, N.S.	–	–	5	6.0
Tracy/Sorel, Que.	1	0.1	4	8.8
Windsor, Ont.	–	–	21	58.8
Total	11	3.0	76	178.1

SOURCE: Employment and Immigration Canada

Notes

CHAPTER 1

1 As the 1980s progress, such policies are assuming increasing importance because of demographic factors. As a result of the decline in the birth rate that began in the mid-1960s, the number of first entrants to the labour force is falling and will continue to do so for some time. So individuals who are already in the labour force have to bear an increasing portion of the adjustment to changes in the pattern of industrial activity (Foot 1982, 204).

CHAPTER 2

1 The median was 7.3 months. The higher mean figure reflects the fact that some workers had extraordinarily long unemployment spells.
2 In Ontario, only employees who are at least 45 years of age and have ten or more years of service to the employer must be vested. More liberal vesting rules may, however, be negotiated under collective bargaining or imposed by a nonunion employer.
3 All property owners in the affected community, not just those laid off from work, would, of course, experience losses on the value of real estate.
4 Aside from the question of fairness here is the danger that such compensation would promote inappropriate choices of occupation and thereby generate inefficiency, reducing the total fruits of society. This is the problem of moral hazard, which is discussed in more detail later in the chapter.
5 Jenkins and Montmarquette (1979) point out that this effect is likely to be small for layoffs from a declining industry because its labour force usually has a disproportionate number of older workers whose skills and experience are industry-specific and hence poor substitutes for those of the average employed worker. This is not, of course, to say that the social costs of layoff are smaller in such cases, but rather that the proportion of the costs borne by those laid off (as opposed to those already unemployed) is greater.

6 This is not to say that there is no scope for fruitful reform of the unemployment insurance or welfare assistance programs. For example, most economists agree that the work-disincentive effects of unemployment insurance could be reduced if premiums were experience-rated.

7 Two additional potential sources of such externalities should be mentioned. First, if economies of scale are present in the provision of municipal services, the shutdown of a firm will mean increases in the average cost of supplying those services to the community's remaining firms and households. Second, there is the possibility of Keynesian externalities – that is, the laid-off workers reduce their consumption, and the decrease in spending may have a multiplier effect that ultimately reduces the value of the social product by more than the value of the marginal product of those initially laid off.

8 For a discussion of the way in which requirements for lengthy advance-notice operate as a 'firing tax', see Saunders (1981, 24-5).

9 Note that the reference here is to *employer*-financed severance pay. Government-financed severance pay would not act as a tax on firing and could conceivably be justified on both equity and efficiency grounds. This strategy is explored in more detail later in the chapter.

10 For an elaboration of this topic, see Dawson, Denton, and Spencer (1982, chap. 4 and 5).

11 Harvey (1980) questions the empirical validity of this theoretical effect. Reporting the results of interviews with forty-nine Ontario companies, he states:

> It is sometimes suggested that one of the reasons for the firms' reluctance to become involved in employer-sponsored training is the high rates of attrition among trainees. The data resulting from our interviews do little to support this contention. We find, in fact, that 84% of training firms report that 10% or fewer of their trainees leave before the completion of training. Similarly, 77% of training firms report that 10% or fewer of their trainees leave within two years of completing training. (p. 59)

These figures may, however, not refute the attrition problem but indicate that most firms that train provide largely firm-specific training.

12 This lack of marketability, of course, implies that the workers themselves would be unwilling to pay for firm-specific training.

13 Dawson, Denton, and Spencer (1982) have argued that government must provide a subsidy to cover all costs of general training since firms have no incentive to bear any part of them. This argument assumes that individuals are either not willing or unable to contribute anything towards these costs, which is an unlikely extreme (especially if trainees have access to government loans).

14 In the past, such shortages had a lower social cost than they do today because Canadian employers could eliminate them relatively quickly by recruiting immigrants with the requisite skills. Canada's slow economic growth in the 1970s, however, prompted a more restrictive immigration policy. The Economic Council of Canada (1982, 42-4) reports that the number of immigrants destined to the labour force declined from 106,083 in 1974 to 35,211 in 1978. Particularly sharp declines occurred in the number of immigrants with training in product fabricating and repair and in machining, two skills frequently cited in recent years as being in short supply. In the late 1970s, as the government recognized the severity of the shortages of certain skills, the admission of immigrants possessing them did increase somewhat. However, many of the skills in short supply here are also in high demand in Europe, and improvements in the standard of living there have made skilled workers less

likely to emigrate. Furthermore, in January 1982, the Canadian government again tightened immigration in an effort to promote the hiring and/or training of Canadians.

15 Even in the short run, some sensitivity is to be expected, as higher wages mean higher costs and a lowering of the optimal rate of output.

16 Moreover, it may not be easy to raise quickly the wage rate paid to workers who have a particular skill. To quote the Dodge Report:

> There are good personnel management reasons why the relative wage structure does not respond rapidly to changes in the skill and experience mix of the work force. It is recognized by industrial relations specialists that abrupt changes in relative wages can have disruptive effects on employee morale and behaviour, reducing productivity and increasing unit labour costs (Canada 1981c, 11).

Betcherman (1982) reports from his survey data that fewer than one-third of the firms that experienced hiring difficulties resorted to improving wages and benefits as a corrective measure. As one might expect, the rate of using higher wages to attract skilled workers increased with the duration of the imbalance.

17 This analysis ignores the possibility of other externalities in the labour market. Where they exist, the gains from more rapid anticipation of demand increments or supply decreases will be greater. See Glenday and Jenkins (1981, 55-8) for an analysis that incorporates the effect of externalities created by the existence of income taxes.

18 There is a theoretical possibility that convergence never occurs. If the long-run supply curve is steeper than the demand curve, the market moves farther and farther away from the equilibrium intersection instead of closer and closer to it.

19 It should be noted that existing forecasts can also overstate shortage problems, creating the danger of overadjustment to perceived labour-market imbalances. For example, in *Labour Market Outlook for Ontario, 1981-86*, Siddiqui et al. (1981) forecast severe shortages in medium and highly skilled blue-collar occupations. However, the economic growth rates they use in their projections are rather optimistic. (Their low-growth scenario is for Canada's real GNP to increase 2.9 per cent annually on average. Since real GNP actually fell substantially during 1982, this figure is unlikely to be realized.) Furthermore, from their table 45 (p. 90), it appears that they arbitrarily classify as white-collar supply both all students of colleges of applied arts and technology who do not graduate and all individuals with a secondary-school education who enter the labour force from the household sector (largely adult women). Also, they make no estimate at all of additions to the skilled blue-collar supply from graduates of Canada Manpower Institutional Training (other than apprenticeship training), from the Canada Manpower Industrial Training Program, or from in-house industrial training that is not organized in formal apprenticeships.

Lotin (1981) reports that many Ontario government officials are skeptical about the purported severity of labour shortages.

20 That moving expenses are a one-time item suggests to some analysts that they are unlikely to be a significant mobility barrier. However, this one-time item may run several thousand dollars, which can be difficult for low-income families to raise.

21 Society's calculation also includes the possibility of the extra resource-cost of housing the worker in the new location being less than the private losses arising from the transfer.

22 The existence of a union, representing the collective interests of many workers,

doubtless increases the ability to lobby effectively. (Without such an organization, some individual workers 'free-ride' on the lobbying efforts of others, thus reducing the activity that is actually undertaken.)

23 This argument is similar to the theory of rent-seeking behaviour in markets for regulatory activity developed by Stigler (1971), Wilson (1974), and others. Its empirical relevance to policies designed to protect declining industries has been demonstrated by the work of Saunders (1980) on the determinants of the Canadian tariff structure.

24 For a similar argument in the case of deregulation, see Tullock (1978).

25 See Glenday, Jenkins, and Evans (1982, 40-3) for a discussion of the considerations relevant to this decision.

26 See, for example, Jenkins and Montmarquette (1979).

27 Immediate vesting might not, however, make pensions completely portable. Consider final-average plans, for which benefits depend on the workers' earnings during the last few years of service. If such a plan terminates, benefits per year of service for even a fully vested employee are lower than they would have been had employment continued until retirement under the same plan.

CHAPTER 3

1 Note that the recommendation here is only that firms be required to list vacancies, not that they be required to receive job applications through the CECs. Firms would remain free to grant or deny interviews as they like. Accordingly, the proposed statutory requirement should not be unduly burdensome.

2 It had been hoped that the biannual Occupational Employment Survey would rectify this problem. However, the data it generated were found to be suspect, and the survey was discontinued in 1979.

3 The Job Vacancy Survey provided detailed quarterly data on vacancies, beginning in 1971. It was discontinued in 1978, to the chagrin of many labour-market researchers.

4 The initiative began under the title Adjustment Assistance Benefit program (also known as the Pre-retirement Benefit program) with the designation of the textiles and clothing industries in 1971; it was extended in 1978 to the footwear and tanning sector. The current name was applied in 1982, when the AAB program was subsumed by the Labour Adjustment Benefit Act.

5 In the past, the benefit rate has been as low as 50 per cent of previous earnings, and as high as 66.6 per cent.

6 This deficiency is soon to be partially remedied. A questionnaire was sent to recipients in April 1982 to obtain demographic and other data on them. There remains the need for a follow-up questionnaire on post-layoff labour-market experience; only that information can reveal whether the compensation payments actually matched wealth losses.

7 Given the relatively brief time remaining until retirement age, retraining assistance in particular is likely to be a poor investment for older workers.

8 Given the potential for creating administrative difficulties, the design of a compensation scheme should be based on a fairly short list of variables. But at least these three – age, the regional unemployment rate, and location – ought to be taken into account. Compensation for capital losses on housing should be provided only upon relocation.

9 Another variable in the Foot and Milne (1981) model captures the impact on migration from a province produced by government outlays in the other provinces; it also rarely yielded the expected result.

The authors also report that a preliminary attempt to incorporate differences in provincial tax structures in the government-policy variable failed to improve the results.

10 According to a report by Robert Stevens in *The Globe and Mail* (3 March 1982, p. 4), 'Provinces are worried that relocation grants may drain population'.

11 On the other hand, the average cost of providing services in the recipient community may fall. But if the average cost curve for municipal services is convex, the gain will be smaller than the original community's loss.

12 For a more detailed discussion of the historical developments leading up to the passage of the Adult Occupational Training Act, see the famous study by Dupre et al. (1973).

13 In 1981-2, special one-time funding allowed a 100 per cent wage disbursement (up to $250 per week) for the first year of a CTST program.

14 For more detailed data on the training programs, including the provincial breakdown for 1979/80, see Dawson, Denton, and Spencer (1982, tables 3-4 to 3-12).

15 Furthermore, Silversides (1983) reports that, in Ontario at least, actual expenditures on industrial training were well below allocations and that some of the unspent funds were transferred to the institutional training budget. As suggested in her report, the underutilization of industrial training funds is probably attributable to the recession.

16 Further analysis based on a twenty-four-month follow-up survey has yet to be published.

17 Since 1977/8, trainees have been able to receive UI benefits in lieu of living allowances.

18 This practice does not rule out non-price competition based on, for example, the quality of instruction and placement rates.

19 Because of this lack of co-ordination, the interdepartmental evaluation (Canada 1977a) recommended that individuals first be relocated to areas of opportunity, then be trained for the jobs in demand. This line of reasoning, however, ignores the rigidity in the geographic distribution of training funds as well as the likely reluctance of workers to relocate well in advance of being able to take advantage of job prospects.

20 On the other hand, recall the assumption of a zero employability gain. Also, the calculation took no account of any lowering of crime rates or reduced use of health-care services.

21 Based on unemployment in these occupations being in excess of vacancies. Approximately 23 per cent were trained in occupations classified as tight throughout the 1973-to-1975 period; the remainder were trained in occupations that alternated between slack and tight.

22 The methodology appears to have been very similar to that used in the CEIC's 1981 evaluation of the industrial training program (Canada 1981a).

23 The gain in employability was quite similar for the two groups. Those trained in

shortage occupations were employed 54.5 per cent of the time in the twelve months before training and 77.8 per cent of the time in the twelve months after training. The corresponding figures for those trained in surplus occupations were 52.9 per cent and 72.8 per cent. It is also noteworthy that trainees 35 years of age or older had approximately the same employability gain as younger trainees, although their wage-rate gain was much smaller (Canada 1982, tables 6.2 and 6.9).

24 Further analysis, based on a twenty-four-month follow-up survey, had yet to be published at the time of preparation of this study.

25 Additional data used in the evaluation were obtained from the training contracts drawn up with employers and from unemployment insurance records.

26 In 1979/80, 11.9 per cent of formerly unemployed industrial trainees received apprenticeship training, 27.4 per cent high-skill training, 36.5 per cent low- or medium-skill training (defined as occupations requiring less than one year of vocational preparation), 5.6 per cent new skill training of undetermined level, 18.4 per cent skill upgrading, and 0.2 per cent general training (not occupationally specific, with a duration of less than 160 hours) (Canada, 1981a, 13, table 3.4).

27 In the presentation of these data, the analysts make no mention of any changes in the general unemployment rate during the period studied. If the calculation of employability gains had included such changes, the effects attributable to the training program could have been separated from those resulting from a change in the macroeconomic environment.

28 The analysis reported in the text examined separately each influence on the employability gain. The researchers also undertook a multivariate analysis. For previously unemployed trainees, the education level before training, the duration of training, the employer's size, and the existence of shortages in the training occupation were all positively and significantly related to the employability gain. The type of training given and the age of the trainee had only a minor influence.

29 The regional gains ranged from 36 per cent in the Atlantic provinces and Quebec to 49 per cent in Ontario.

30 By 1979/80 this figure had fallen slightly to 27 per cent. In some regions, however, training in surplus occupations continued to be very high (40 per cent in Quebec, 77 per cent in Newfoundland). Training in surplus occupations was least likely for those in apprenticeship and those training for high-level skills.

31 Earlier in this chapter, I objected to the assumption of lifetime benefits, made in the 1977 CMTP study (Canada 1977a), as being overly optimistic. There is, however, a happy medium between assuming that the earnings gain lasts five years and assuming it lasts a lifetime. Moreover, the employability gain, which the 1977 study did not cover, should certainly last longer than five years.

32 On the other hand, external reviews may also be biased, given that the researchers may expect that they will be more likely to obtain further government contracts if they provide a favourable assessment.

33 In the case of on-the-job training, occasional inspection by government officials would be necessary to ensure that training was occurring.

34 As noted earlier, the normal wage subsidy under CTST is 50 per cent, but in 1981/2 it provided a 100 per cent subsidy (up to $250 weekly). Furthermore, reversion to the 50 per cent level was postponed, with a 75 per cent subsidy in effect until March 31, 1983.

The subsidy rates under GIT are slightly different than were CMITP's. The latter subsidized wages to a maximum of 40 per cent for workers who had been previously

hired by the company and 60 per cent for persons hired specifically for training, whereas the GIT maximum subsidy is 50 per cent in both cases. The special subsidy rates for women being trained in nontraditional occupations and for special-needs workers remain unchanged at 75 per cent and 85 per cent, respectively.

35 It may seem puzzling that such layoffs occur. The possibility arises because some trades are used in several industries, one or more of which can be declining while the others are growing rapidly. Cyclical downturns also present problems, even in industries with good future prospects.

36 For 1983/4, the minimum outlay is 95 per cent of the 1982/3 allocation plus a 5 per cent escalation adjustment. For 1984/5, the minimum is to be 90 per cent of the 1983/4 allocation plus an escalation factor still to be negotiated.

37 Federal government literature refers to the CITCs under a different name: Local Industrial Training Advisory Committees (LITACs).

38 The Canadian Labour Congress (1981) and the Business Council on National Issues go further: they recommend that the aggregation of such locally generated information be the responsibility of an independent 'industrial labour market institute' rather than of the CEIC. The proposal is for an institute jointly administered by the CLC and the BCNI but federally funded. I see no compelling reason for the federal government to cede the task of aggregating and disseminating labour-market information. It already has expertise in this area; its main problem to date has been lack of data. Furthermore, since COPS is already in place under CEIC direction, it ought to be given a chance to work. If, however, COPS fails to generate reliable imbalance forecasts, the case for an independent institute would strengthen. (Update: As this study was about to go to press, the federal government announced the formation of a federally-funded Labour Market and Productivity Centre, to be jointly managed by representatives of the CLC, the Canadian Federation of Labour, and the BCNI. The Centre's responsibilities are to include the development and interpretation of labour market information.)

39 This 70 per cent is paid even to workers who have exhausted UI benefits before referral to training.

40 To receive this assistance, a firm must demonstrate that the project is viable yet would not be undertaken without the subsidy.

41 This figure does not include early-retirement benefits.

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